

**REPORT ON COMPLIANCE AND INTERNAL CONTROLS**

**Report on Compliance and on Internal Control Over Financial Reporting**  
**Based on an Audit of the General-Purpose Financial Statements**  
**Performed in Accordance With**  
***Government Auditing Standards***

To the People of Kentucky  
The Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet

We have audited the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1998, and have issued our report thereon dated January 30, 1999. We conducted our audit in accordance with generally accepted government auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Several agencies were audited for internal control and compliance requirements in accordance with OMB Circular A-133 by other auditors whose reports thereon have been furnished to us, and our opinion presented herein, insofar as it relates to these agencies listed in the Appendix to this report, is based solely or partly on the reports of the other auditors.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commonwealth's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commonwealth's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 98-CHS/CDP-1, 98-C&I-2, 98-C&I-3, 98-FAC-4, 98-KSFB-5, 98-PERS-6, 98-PERS-10, 98-WFDC-7, 98-CHS/CDP-8, and 98-DIS-9.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 98-CHS-8, 98-DIS-9, and 98-PERS-10 to be material weaknesses.

This report is intended for the information of management and applicable Federal agencies and pass-through entities. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Sincerely,

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

**Report on Compliance With Requirements Applicable to Each  
Major Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133 and on the  
Schedule of Expenditures of Federal Awards**

To the People of Kentucky  
The Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet

Compliance

We have audited the compliance of the Commonwealth of Kentucky with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 1998. The Commonwealth's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

Several agencies were audited for internal control and compliance requirements in accordance with OMB Circular A-133 by other auditors whose reports thereon have been furnished to us, and our opinion presented herein, insofar as it relates to these agencies listed in the Appendix to this report, is based solely or partly on the reports of the other auditors.

The Commonwealth's general-purpose financial statements included the operations of the state universities, which expended \$276,777,419 in Federal awards that is not included in the Schedule of Expenditures of Federal Awards during the year ended June 30, 1998. The expenditure amount for Kentucky State University was not available and no expenditures relating to the Kentucky State University have been included in the above

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amount. Our audit, described below, did not include the operations of the state universities because they engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commonwealth's compliance with those requirements.

In our opinion, based on our audit and the reports of other auditors, the Commonwealth complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 1998.

#### Internal Control Over Compliance

The management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Commonwealth's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Commonwealth's ability to administer a major Federal program in accordance with the

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applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 98-CFC-11, 98-CFC-14, 98-CFC-15, 98-CFC-17, 98-CFC-18, 98-CFC-19, 98-CFC-20, 98-CFC-36, 98-CHS-28, 98-CHS-29, 98-CHS-37, 98-NREPC-32, 98-TC-33, 98-CFC-12, 98-CFC-13, 98-CFC-16, 98-CFC-19, 98-CFC-21, 98-CFC-22, 98-CFC-23, 98-CFC-34, 98-CFC-35, 98-CFC-36, 98-CHS-28, 98-KHESLC-30, and 98-MA-31.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider 98-CFC-34 through 98-CFC-36, and 98-CHS-37 to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the Commonwealth as of and for the year ended June 30, 1998, and we have issued a report thereon dated January 30, 1999. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements.

The general-purpose financial statements of the Commonwealth are prepared on an accrual/modified accrual basis of accounting. However, the Schedule of Expenditures of Federal Awards of the Commonwealth is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the Schedule of Expenditures of Federal Awards is not intended to present the expenditures of Federal awards in conformity with generally accepted accounting principles.

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In our opinion, except for the effect of the application of a different basis of accounting as explained above, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the Commonwealth's general-purpose financial statements taken as a whole.

This report is intended for the information of management and applicable Federal agencies and pass-through entities. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Sincerely,

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998**

**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statement Accounts and Schedule of Expenditures of Federal Awards**

Financial Statement Accounts: We issued an qualified opinion on the Commonwealth of Kentucky's general-purpose financial statements as of and for the fiscal year ended June 30, 1998 because we were unable to verify evidence regarding year 2000 disclosures.

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the Commonwealth’s Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with generally accepted accounting principles as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth’s general-purpose financial statements taken as a whole.

Internal Control Over Financial Reporting: Our consideration of the Commonwealth’s internal control over financial reporting disclosed **twenty-four** reportable conditions. We believe that **fourteen** of the reportable conditions are material weaknesses. The reportable conditions and material weaknesses, which were disclosed during our audit of the general-purpose financial statements of the Commonwealth of Kentucky, are applicable to the following:

<u>AGENCY</u>	<u>NUMBER &amp; TYPE OF FINDINGS</u>	
	<u>REPORTABLE</u>	<u>MATERIAL</u>
Kentucky State Fair Board (98-KSFB-5)	1	
Cabinet for Health Services/Custom Data Processing (98-CHS/CDP-1)	1	
(98-CHS/CDP-8)		1
Finance and Administration Cabinet (98-C & I-2, 98-FAC-4)	2	
Department of Information Systems (98-DIS-9)		1
Department of Treasury (98-C & I-2)	1	
Office of Financial Management and Economic Analysis (98-C & I-3)	1	
Personnel Cabinet (98-PERS-10, 98-PERS-6)	1	1
Workforce Development Cabinet (98-WFDC-7)	1	

The reportable conditions and material weaknesses are presented in detail in Section 2 Financial Statement Findings of the Schedule of Findings and Questioned .

Compliance: In relation to the audit of the Commonwealth of Kentucky’s general purpose financial statements, and the Schedule of Expenditures of Federal Awards, the results of our tests disclosed **six** instances of noncompliance that are required to be reported under generally accepted government auditing standards. These instances of noncompliance

**COMMONWEALTH OF KENTUCKY  
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**Financial Statement Accounts and Schedule of Expenditures of Federal Awards  
(Continued)**

disclosed during our tests are considered material and are applicable to the following agencies of the Commonwealth of Kentucky:

<u>AGENCY</u>	<u>NUMBER &amp; TYPE OF FINDINGS</u>	
	<u>REPORTABLE</u>	<u>MATERIAL</u>
The instances of material noncompliance are presented in Section 2 - Financial Statement Findings of the Schedule of Findings and Questioned Costs.		

**Federal Awards**

Internal Control Over Major Programs: Our consideration of the Commonwealth's internal control over compliance disclosed **twenty-seven** reportable conditions. We believe that **three** of the reportable conditions are material weaknesses. The reportable conditions and material weaknesses, which were disclosed during our audit conducted in accordance with OMB Circular A-133, are applicable to the following agencies of the Commonwealth:

<u>AGENCY</u>	<u>NUMBER &amp; TYPE OF FINDINGS</u>	
	<u>REPORTABLE</u>	<u>MATERIAL</u>
Cabinet for Families and Children (98-CFC-11, 98-CFC-14, 98-CFC-15, 98-CFC-17, 98-CFC-18, 98-CFC-19, 98-CFC-20) (98-CFC-35, 98-CFC-36)	7	2
Cabinet for Health Services (98-CHS-28, 98-CHS-29) (98-CHS-37)	2	1
Natural Resources and Environmental Protection Cabinet (98-NREPC-32)	1	
Transportation Cabinet (98-TC-33)	1	

The reportable conditions and material weaknesses relative to the Commonwealth's internal control over compliance are presented in Section 3 - Federal Awards Findings and Questioned Costs of the Schedule of Findings and Questioned Costs.

Compliance for Major Programs: We issued an unqualified opinion on the Commonwealth's compliance with the requirements applicable to each of its major Federal programs. However, the results of our auditing procedures disclosed **six** instances of noncompliance with those requirements, which are required to be reported in

**COMMONWEALTH OF KENTUCKY  
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FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**Federal Awards (Continued)**

accordance with OMB Circular A-133, section 510(a). These findings are applicable to the following agencies of the Commonwealth of Kentucky:

<u>AGENCY</u>	<u>NUMBER &amp; TYPE OF FINDINGS</u>	
	<u>REPORTABLE</u>	<u>MATERIAL</u>
Cabinet for Families and Children (98-CFC-12, 98-CFC-13, 98-CFC-16, 98-CFC-19, 98-CFC-21, 98-CFC-22, 98-CFC-23) (98-CFC-34, 98-CFC-36)	7	2
Cabinet for Health Services (98-CHS-28)	1	
Kentucky Higher Education Student Loan Corp (98-KHESLC-30)	1	
Department of Military Affairs (98-MA-31)	1	

The findings relative to compliance with requirements applicable to each of its major Federal programs are presented in Section 3 - Federal Awards Findings and Questioned Costs of the Schedule of Findings and Questioned Costs.

**Identification of Major Programs Audited**

OMB Circular A-133 defines a major program as "a Federal program determined by the auditor to be a major program in accordance with section \_\_.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section \_\_.215 (c)." Section \_\_.520 states that "The auditor shall use a risk-based approach to determine which Federal programs are major programs." The following is a list of major Type A programs audited:

<u>CFDA #</u>	<u>Program Title</u>	<u>Expenditures</u>
<b>10.551</b>	Food Stamps	\$ 352,605,393 <b>a</b>
<b>10.553</b>	School Breakfast Program	25,559,908 <b>b</b>
<b>10.555</b>	National School Lunch Program	81,529,555 <b>b</b>
<b>10.556</b>	Special Milk Program for Children	86,928 <b>b</b>
<b>10.557</b>	Special Supplemental Nutrition Program for Women, Infants, and Children	82,985,869
<b>10.558</b>	Child and Adult Care Food Program	14,309,440
<b>10.559</b>	Summer Food Service Program for Children	2,969,417 <b>b</b>

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**Identification of Major Programs Audited (Continued)**

<b>CFDA #</b>	<b><u>Program Title</u></b>	<b><u>Expenditures</u></b>
<b>10.561</b>	State Administrative Matching Grants for Food Stamp Program	26,405,514 <b>a</b>
<b>14.182</b>	Lower Income Housing Assistance Program – Section 8 New Construction/Substantial Rehabilitation	61,486,323 <b>c</b>
<b>14.239</b>	HOME Investment Partnerships Program	12,105,020
<b>14.855</b>	Section 8 Rental Voucher Program	4,299,250 <b>c</b>
<b>14.856</b>	Lower Income Housing Assistance Program – Section 8 Moderate	1,525,502 <b>c</b>
<b>14.857</b>	Rehabilitation	6,430,612 <b>c</b>
<b>15.252</b>	Abandoned Mine Land Reclamation (AMLR) Program	15,842,963
<b>17.207</b>	Employment Services	13,465,219 <b>d</b>
<b>17.225</b>	Unemployment Insurance	251,774,472
<b>17.246</b>	Employment and Training Assistance – Dislocated Workers	16,145,713 <b>e</b>
<b>17.250</b>	Job Training Partnership Act	26,623,795 <b>e</b>
<b>17.801</b>	Disabled veterans' Outreach Program (DVOP)	781,580 <b>d</b>
<b>17.804</b>	Local Veterans' Employment Representative Program	893,928 <b>d</b>
<b>20.205</b>	Highway Planning and Construction	326,307,796
<b>59.041</b>	Certified Development Company Loans (504 Loans)	23,421,674
<b>66.458</b>	Capitalization Grants for State Revolving Funds	19,652,422
<b>83.544</b>	Public Assistance Grants	26,176,865
<b>84.007</b>	Federal Supplemental Educational Opportunity Grants	179,660 <b>g</b>
<b>84.010</b>	Title I Grants to Local Educational Agencies	118,645,331
<b>84.027</b>	Special Education - Grants to States	35,246,536 <b>f</b>
<b>84.032</b>	Federal Family Education Loans	66,762,448 <b>g</b>
<b>84.048</b>	Vocational Education – Basic Grants to States	11,554,182
<b>84.063</b>	Federal Pell Grant Program	6,544,559 <b>g</b>
<b>84.126</b>	Rehabilitation Services – Vocational Rehabilitation Grants to States	42,390,649

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

<b>CFDA #</b>	<b><u>Program Title</u></b>	<b><u>Expenditures</u></b>
<b>84.173</b>	Special Education – Preschool Grants	8,987,880 <b>f</b>
<b>93.268</b>	Immunization Grants	13,389,518
<b>93.558</b>	Temporary Assistance for Needy Families	145,300,051
<b>93.563</b>	Child Support Enforcement	31,526,590
<b>93.568</b>	Low-Income Home Energy Assistance	14,695,143
<b>93.595</b>	Welfare Reform Research, Evaluation, and National Studies	17,782,464
<b>93.596</b>	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	24,648,180
<b>93.658</b>	Foster Care - Title IV-E	43,622,560
<b>93.667</b>	Social Services Block Grant	29,099,467
<b>93.775</b>	State Medicaid Fraud Control Units	863,470 <b>h</b>
<b>93.777</b>	State Survey and Certification of Health Care Providers and Suppliers	3,211,943 <b>h</b>
<b>93.778</b>	Medical Assistance Program	1,861,592,958 <b>h</b>
<b>93.959</b>	Block Grants for prevention and Treatment of Substance Abuse	16,079,947
<b>96.001</b>	Social Security – Disability Insurance	31,323,741
<b>Total Type A Programs Audited</b>		<b><u>\$3,916,805,435</u></b>

Identified clusters include:

- a** – Food Stamp Cluster (Cabinet for Families and Children)
- b** – Child Nutrition Cluster (Department of Education)
- c** – Section 8 Cluster (Kentucky Housing Corporation)
- d** – Employment Services Cluster (Workforce Development Cabinet)
- e** – JTPA Cluster (Workforce Development Cabinet)
- f** – Special Education Cluster (Department of Education)
- g** – Student Financial Aid Cluster (Kentucky Higher Education Assistance Authority, Workforce Development Cabinet)
- h** – Medicaid Cluster (Cabinet for Health Services)

The following is a list of Type B programs audited as Major programs

<b>CFDA #</b>	<b><u>Program Title</u></b>	<b><u>Expenditures</u></b>
<b>10.664</b>	Cooperative Forestry Assistance	\$4,300,863
<b>83.543</b>	Individual and Family Grants	3,090,601
<b>93.994</b>	Maternal and Child Health Services Block Grant to the States	4,348,302
<b>Total Type B Programs Audited</b>		<b><u>\$11,739,766</u></b>

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**Dollar Threshold Used to Distinguish Between Type A and Type B Programs**

The maximum dollar threshold used to distinguish between Type A and Type B Programs was \$12,000,000. Certain component units and agencies audited by Certified Public Accounting firms had lower dollar thresholds.

**Auditee Qualify as Low-Risk Auditee?**

The Commonwealth of Kentucky did not qualify as a low-risk auditee.

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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(CONTINUED)

**SECTION 2 – FINANCIAL STATEMENT FINDINGS AND  
QUESTIONED COSTS**

***Reportable Conditions Relating to Internal Controls and/or Compliance:***

**FINDING 98-CHS/CDP-1: Custom Data Processing, Inc., Should Improve  
Logical Access Security Procedures For The Cabinet For Health Services System  
Applications**

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State Agency: Cabinet for Health Services

During 1997, it was noted that Custom Data Processing, Inc. (CDP) programmers had unrestricted access to all source code, object code, and data relating to the Cabinet for Health Services (CHS) system applications. Furthermore, programmers had unrestricted access to compile source code and move it into production. Finally, management did not review any system-generated reports detailing moves to production (for comparison against expected moves to production).

Maintaining an appropriate segregation of duties (with respect to change management) requires that the ability to modify source code and the ability to update production files (programs and data) be separated and that extensive monitoring of the change management process be performed.

PricewaterhouseCoopers (PwC) noted that there have not been any changes to CDP programmers unrestricted access to programs and data. We continue to recommend that CDP take steps to limit programmer access to the systems.

PwC also noted that CDP has implemented several new controls to assist in minimizing the risk of unauthorized access. CDP has implemented the use of a Program Implementation Form that is submitted by the programmers once a program change has been completed in the test environment. Based on this form, CDP operations staff will then move the changed program into the production environment. On a daily basis, the Operations Manager reviews the CDP Systems Operating Log to ensure that all program changes have a corresponding Program Implementation Form. During our testing, however, it was noted that the Program Implementation Form was not being consistently used. We recommend that CDP take steps to ensure that the program implementation form is used for all program modifications as well as new programs moved into the production environment.

Program changes made to the System B (server) environment are not reflected on the Systems Operating Log. Therefore, the Operations Manager does not have a way to ensure that a Program Implementation Form is submitted for every program modification on System B. This results in a situation where unauthorized program changes could be introduced into the System B production environment.

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(CONTINUED)**

**FINDING 98-CHS/CDP-1: Custom Data Processing, Inc., Should Improve Logical Access Security Procedures For The Cabinet For Health Services System Applications (Continued)**

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Maintaining an appropriate segregation of duties (with respect to change management) requires that the ability to modify source code and the ability to update production files (programs and data) be separated and that extensive monitoring of the change management process be performed.

**Recommendations**

We recommend that CDP implement controls that would allow monitoring of program modifications in the server environment.

**Management's Response and Corrective Action Plan**

*CDP has implemented several additional controls as recommended by PwC. CDP staff is now familiar with the procedures as implemented and subsequent audits should illustrate that the procedures are in place and working. It should be noted that a significant portion (20%) of the documents PwC requested for examination related to Year 2000 (Y2K) only changes for which no procedures had been established. CDP has since changed its procedures to require the use of the Program Implementation Form when changing a program as a result of Y2K modification.*

*As CDP's data center computer configuration changes to one which is more LAN based, CDP management will establish source code directories for each system. This configuration will then require programmers to check-in and check-out source code from a senior staff member.*

*As of 11/16/98, programming changes have been implemented that now enable the Operations Manager to view program changes made to the System "B" (server) environment.*



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**FINDING 98-C&I-2: Department Of Treasury And Finance And  
Administration Cabinet Should Enhance Reconciliation Procedures**

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State Agency: Department of Treasury,  
Finance and Administration Cabinet

Department of Treasury's (Treasury) and Finance and Administration Cabinet's (FAC) Division of Accounts' investment portfolios were misstated at June 30, 1998. During our review of the FAC's and Treasury's monthly investment reconciliation process, we noted that the June 30, 1998, reconciliation for both Finance and Treasury was incorrect. Specifically, Treasury's Investment Portfolio was overstated by \$52,757,487.70 and Finance's Division of Account's Securities Portfolio was overstated by \$206,094,000.00.

A government entity needs an internal control structure which provides controls to ensure compliance with laws and regulations, safeguards its assets, checks the accuracy and reliability of its accounting data, and promotes operational efficiency. A good internal control structure is essential for the achievement of full accountability, which is a primary issue in today's government.

**Recommendation**

We recommend FAC and Treasury work together to enhance their reconciliation process to ensure their respective investment portfolios agree at the end of each month.

**Management's Response and Corrective Action Plan**

*Department of Treasury Response:*

*The good news is that both the Finance Cabinet's and Treasury's Investment Portfolios will disappear with the implementation of MARS on July 1, 1999. There will no longer be a reconciliation to be done. All investment information will be housed in the Office of Financial Management and Economic Analysis' CAMRA System.*

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**FINDING 98-C&I-2: Department Of Treasury And Finance And  
Administration Cabinet Should Enhance Reconciliation Procedures (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*Until that time, we have been attempting to communicate more clearly with Finance Accounts concerning any problems which appear on reconciliations, and to ensure that the needed corrections be done. Both Finance and the Treasurer's Office have had recent personnel turnovers in this area, however, and some enhanced reconciliation efforts have suffered setbacks during the transition periods. New employees are training in both offices.*

*Finance and Administration Cabinet Response:*

*Normal procedure is for the Division of Statewide Accounting Services to reconcile the investment portfolio on a monthly basis. However, at June 30, 1998, an amount in one pool was missed. Care will be taken in the future that the reconciliation is completed.*

**COMMONWEALTH OF KENTUCKY  
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**FINDING 98-C&I-3: Office Of Financial Management And Economic Analysis  
Should Ensure The Investment System Is Year 2000 Compliant**

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State Agency: Office of Financial Management and Economic Analysis,  
Finance and Administration Cabinet

The Finance and Administration Cabinet, Office of Financial Management and Economic Analysis (OFMEA) has not completed modifications necessary to make the Complete Asset Management, Reporting, and Accounting system (CAMRA) Year 2000 compliant. Our Review revealed OFMEA assessed their critical systems and developed an overall Year 2000 strategy, including a timetable to accomplish the conversion process, however, they had not completed the conversion and testing processes.

If Year 2000 issues are not addressed in a timely manner, various processing problems could occur, including inaccurate information rendering the affected systems dysfunctional.

The agency is currently using Novell 3.11, which is not Year 2000 compliant. The planned conversion to Novell 5.0 will correct the processing problems. Currently, the agency is testing the updated version CAMRA 2000; the key software used to compile critical data for investments. CAMRA 2000 will run it parallel to CAMRA during testing. Implementation of CAMRA 2000 will follow the established schedule.

Further, the exchange of data with other agencies/systems is a key-processing component for Cash and Investments. Account balances from STARS are utilized throughout operations, and are compared and verified with CAMRA balances. STARS is currently not completely Year 2000 compliant. Data dependencies are key for day-to-day processes. We are aware that some critical functions of STARS will be modified to correct any date processing problems. Some other functions will be retired and will be replaced by the new accounting system anticipated to go on line by July 1, 1999.

The Year 2000 calculation problems associated with applications designed to save space, keystrokes, and calculation time by eliminating the "19" as the century in dates. If these systems are fed with the numbers "00" to represent the year, they may produce incorrect results or become totally dysfunctional since these systems may interpret this input as the year 1900 instead of 2000. If Year 2000 issues are not addressed in a timely manner, various processing problems could occur: date comparisons will not work as expected, date sorts will result in sequence errors, file merges may produce unpredictable results, data edits may fail to prevent erroneous data, and data validations and projections may not be reliable.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-C&I-3: Office Of Financial Management And Economic Analysis  
Should Ensure The Investment System Is Year 2000 Compliant (Continued)**

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Although OFMEA may obtain timely compliance for their systems, other feeder systems may also be non-compliant and in effect cause failures in CAMRA processing and result in misstatement of account values and balances. In order for accurate system processing to continue, it is crucial that all systems be evaluated and necessary changes made before the date field causes systems to fail or produce inaccurate results. Modifications should be completed in sufficient time to allow testing to identify potential errors. Feeder systems should be evaluated to ensure compliant data is fed into the CAMRA system.

**Recommendation**

We recommend OFMEA maintain compliance with their established plans to ensure the necessary hardware and software components applicable to CAMRA processing, including feeder systems, are Year 2000 compliant by June 30, 1999.

**Management's Response and Corrective Action Plan**

*The agency concurs with the auditor's recommendations.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-FAC-4: Finance And Administration Cabinet Should Prevent Inappropriate Disbursement Of Funds And Duplicate Payments By Maintaining Adequate Documentation To Support Transactions And Strengthening Pre-audit Reviews**

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State Agency: Finance And Administration Cabinet

The procedures used by the Finance and Administration Cabinet's Department of Facilities Management to account for capital projects were not adequate to prevent the Commonwealth from the improper distribution of money. The following are specific findings:

- During our internal control testing related to Capital Projects for FY 6/30/98, we noted change orders for four projects appeared to contain insufficient documentation and/or explanation for the change from the original contract price. In one of the cases, the change order was referenced in the contract folder ledger but was missing from the folder.
  - CT-005466 Installation of Exit Doors Locks and Alarms:  
There were three change orders for this project referenced in the contract folder; one was missing.
  - CT-005517 UST Removal, Military Affairs:  
The change order for this project was completed after the project had been given an unauthorized go ahead by the agency in order to correct an unforeseen condition. The buyer corroborated that the work was given an unauthorized approval at the agency and that the state was bound by this authorization. The change order was for \$21,085.00 and constituted a major portion of the \$52,720.00 contract price.
  - CT-005589 Folk Art Museum – Phase II:  
The change order was not backed up in the contract folder with supporting documentary evidence.
  - CT-005633 Shower/Toilet Room Renovation:  
The change order was not backed up in the contract folder with supporting documentary evidence.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-FAC-4: Finance And Administration Cabinet Should Prevent Inappropriate Disbursement Of Funds And Duplicate Payments By Maintaining Adequate Documentation To Support Transactions And Strengthen Pre-audit Reviews (Continued)**

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- During our audit of capital project expenditures at the Central Level, we noted 13 instances of incomplete or inadequate approval signatures.
- During our audit of capital project expenditures at the Central Level, we noted 2 instances of incomplete or inadequate price contract approval procedures:
  - Document ID #PO278072 Price Contract BP770712, Department of Parks:  
This contract contains an express declaration of compensation for hauling charges on a per mile basis. The transportation charges cannot be extrapolated from the information provided on the invoice and thus are not verifiable by the Pre-Audit Branch.
  - Document ID #EN987299 Price Contract PCT-196-9185, Families and Children:  
This price contract was not signed by the final approver, the contract was expired and the contract provisions do not tie exactly to the DOA form statement. There is no way to determine the actual date of the contract performance and thus appropriateness of the payment.
- During our audit of capital project expenditures at the Central Level we noted five instances where duplicate payments were likely:
  - Purchase Order #203388 and Purchase Order #203389 were made for payment to Wright Line, Inc. for identical items, on the same day, with the same ship to address. These purchase orders were for \$2,728.90 and were processed by Morehead State University on August 11, 1997. Both were approved by the same agency head or authorized representative.
  - Purchase Order #203374 and Purchase Order #203376 were made for payment to GTE for identical items, on the same day, and with the same ship to address. These purchase orders were for \$6,769.80 and were processed by Morehead State University on October 29, 1997. Both were approved by the same agency head or authorized representative.
  - Purchase Order #203281 and Purchase Order #203282 were made for payment to Cardinal Office Systems, on the same day, and with the same ship to address. These purchase orders were for \$2,486.40 and were processed by Morehead State University on July 30, 1997. Both were approved by the same agency head or authorized representative.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-FAC-4: Finance And Administration Cabinet Should Prevent Inappropriate Disbursement Of Funds And Duplicate Payments By Maintaining Adequate Documentation To Support Transactions And Strengthen Pre-audit Reviews (Continued)**

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- Purchase Order #203359 and Purchase Order #203360 were made for payment to Cardinal Office Systems, on the same day, and with the same ship to address. These purchase orders were for \$2,027.60 and were processed by Morehead State University on September 10, 1997. Both were approved by the same agency head or authorized representative.
- Purchase Order #203296 and #203297 were made for payment to CIC Systems, on the same day, and with the same ship to address. These purchase orders were for \$358.00 and were processed by Morehead State University on July 14, 1997. Both were approved by the same agency head or authorized representative.
- During our internal control testing related to Capital Projects for FY 6/30/98, we noted that affidavits of full and final settlement were not exercised to close out two contracts.
  - CT-005522 Cooling Tower Replacement:  
Form B 210-13 was not located in the contract folder.
  - CT-005589 Folk Art Museum – Phase II:  
Form B 210-13 was not located in the contract folder.
- During our audit of capital project expenditures at the Central Level, we noted 2 instances additional costs incurred under small purchase procedures:
  - Document ID #PO286466:  
Freight charges were listed on the invoice in possible violation of The Finance and Administration Cabinet's Manual of Policies and Procedures (Finance Policies & Procedures) BO-111-46-00, which are incorporated by reference into the Kentucky Administration Regulations.
  - Document ID #PO249045:  
A payment discount was available and practicable. The warrant date was after the cut-off for payment discount that should have been identified and paid.
- During our audit of capital project expenditures over \$999,999.00 we noted two instances of incomplete or inadequate price contract approval procedures:

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-FAC-4: Finance And Administration Cabinet Should Prevent Inappropriate Disbursement Of Funds And Duplicate Payments By Maintaining Adequate Documentation To Support Transactions And Strengthen Pre-audit Reviews (Continued)**

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- Document ID #PO352970:  
The purchase order for this purchase of real property does not disclose the purchase type and lacks the requisite two appraisals per Finance Policies & Procedures BO-220-25-00
  
- Document ID #PO272502:  
This purchase order could not be located indicating a price check was not likely performed by the Pre-Audit Branch.

**Recommendations**

We recommend the following for improvement in order to prevent the inappropriate disbursement of funds:

- Department for Facilities Management should refrain from authorizing change orders that result in significant increases to the scope of the project or the funding required until adequate and thorough documentation is received from the entity requesting the change (the agency, contractor, or the architect/engineer). The contract folder should contain supporting documentation verifying the DFM review and evaluation for the changes made to the original contract.
- Pre-Audit Branch strengthens existing controls over signature authority by utilizing the signature authority prescribed by the KAPS form. Also that the authorized persons using the Director's signature stamp should initial the stamp mark. These actions will allow for a verifiable payment authority.
- Pre-Audit Branch implement a system to verify costs allocated to purchases made under price contract and require that vendors comply by including all information necessary to verify contract compliance on the invoice.
- Pre-Audit Branch implement a control system to identify possible duplicate payments and/or strengthen existing controls.
- Department for Facilities Management close all contracts by exercising the affidavit of full and final settlement. This affidavit should be maintained in the contract folder.
- Pre-Audit Branch implement a system to adequately verify costs allocated for freight and purchase discounts made under small purchase procedures.



**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-FAC-4: Finance And Administration Cabinet Should Prevent Inappropriate Disbursement Of Funds And Duplicate Payments By Maintaining Adequate Documentation To Support Transactions And Strengthen Pre-audit Reviews (Continued)**

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**Recommendations (Continued)**

- Pre-Audit Branch implement a system to verify costs allocated to purchases made under price contracts, to ensure that vendors include all information necessary and required by FAC policies and procedures, and to establish procedures for price contract verifications of dollar amounts included on invoices for contract services.

**Management's Response and Corrective Action Plan**

*Due to circumstances beyond the responding agency's control, its response was not included in the report issued July 31, 1999. The agency could not respond because the APA did not get the comment to the agency in a timely manner. The report on the APA's website will be updated upon receipt of the agency's response.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-KSFB-5: General Ledger Accounts Should Be Analyzed And Reconciled To Underlying Supporting Records On A Timely Basis**

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State Agency: Kentucky State Fair Board

The Kentucky State Fair Board does not perform timely reconciliations on the majority of its general ledger accounts. The board's accounting staff spent four and one-half month (7/98-11/98) reconciling June 30, 1998, account balances to the general ledger. This reconciliation process resulted in approximately 100 adjustments to the general ledger before the June 30, 1998, financial statements could be prepared.

By not analyzing and reconciling such general ledger accounts on a timely basis (e.g. monthly), interim financial statements or preliminary year-end financial statements could be significantly misstated. Also, such reconciliations are an important element of an organization's internal control.

**Recommendation**

We recommend that all material general ledger accounts be analyzed and reconciled to underlying supporting records on a monthly or quarterly basis. We believe this should be done prior to any financial statements being issued for the period.

**Management's Response and Corrective Action Plan**

*The Auditors are correct in identifying the reconciliation issue as a serious problem, and it is one that the Board had previously planned to address during 1998-99. In recent years a number of major problem areas have been addressed successfully. Over 30 years of hand-written fixed asset records have been reconciled and computerized, previous problems with bank account/ledger reconciliation had been solved, backlogs in accounts payable have been eliminated through the implementation of new state payment procedures, and billings to exhibitors have been accelerated through the use of new computer equipment. Unfortunately, some of these successful actions have exacerbated a long-standing problem with account reconciliation by crowding more data into each financial period. At the same time no significant changes have been made to either the accounting system itself or to the reconciliation procedures necessary to ensure the accuracy of this increased stream of data. While the financial statements have now become more complete in their accounting for events, they may also have become less reliable in their accuracy.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-KSFB-5: General Ledger Accounts Should Be Analyzed And  
Reconciled To Underlying Supporting Records On A Timely Basis (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*Improvements will be made in two broad areas. First-of-all, the Board's staff will proceed with its plan to obtain a new accounting system that is both year 2000 compliant and more user-friendly. The present system was initiated in 1982 when the Board's event income and its expenses were less than 1/3 its present level. One of the major motivations for seeking out a new system was to make the reconciliation process both easier and faster.*

*Secondly, the Board's accounting staff will review both internal procedures and individual workloads to determine where tasks can be shifted to maximize the time available for reconciliation work. Success in reducing backlogs elsewhere has given us the flexibility to adjust assignments. In addition, the timetable for data submission and recording will be reviewed to reduce the overloading of information in any given period.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-PERS-6: The Personnel Cabinet Should Implement Adequate Logical Access Security For The Unified Personnel And Payroll System**

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State Agency: Personnel Cabinet

The fiscal year (FY) 97 audit for the Personnel Cabinet (Personnel) contained a reportable condition related to the lack of adequate logical access security for the Unified Personnel and Payroll System (UPPS). In the Summary Schedule of Prior Audit findings, the agency stated they would monitor programmer access to production files and reduce or eliminate access if problems arose. Additionally, they stated that the update access granted to the Department of Information Systems (DIS) librarians would be removed.

However, during our testing for the FY 98 audit, we found the deficiencies with the logical access security had not been corrected. Further, several established logical system access control policies were not consistently applied during FY 98. First, properly approved system access request forms were not always received before access was granted to new users and/or additional access was granted to existing users. Second, access request forms prior to January 1998 were disposed of by the new acting Personnel Security Officer. Third, either the agency or the Personnel Security Officer did not consistently complete access forms. Lastly, an updated agency security officer listing was not available to the Personnel Security Officer for use in validating the signatures of approving agency security officers on the system access request forms.

Due to the recurrence of deficiencies noted in FY 97 and the occurrence of additional exceptions noted in FY 98, we conclude that the Summary Schedule of Prior Audit Findings for Personnel has been materially misrepresented.

**Recommendation**

DIS programmers should not have update access to Personnel data. If programmers are granted this access, it should only be in an emergency situation, and the work performed should be closely monitored. The Personnel Security Officer should promptly revoke emergency access once the emergency situation is resolved. Additionally, established access control policies concerning system access requests should be consistently applied. Properly approved Security List Forms should be required for all system access requests. These forms should be retained for audit purposes as long as the requested access remains in effect. We further recommend that the Personnel Cabinet Computer Security Policy manual be updated to reflect necessary retention procedures for the Security List Forms and procedures for utilizing an updated Agency Security Officer List for verification of agency.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-PERS-6: The Personnel Cabinet Should Implement Adequate  
Logical Access Security For The Unified Personnel And Payroll System (Continued)**

**Management's Response and Corrective Action Plan**

*Personnel will insure that all security forms are properly authorized and maintained. The access for the DIS librarians will be changed to read only. DIS will be asked to provide an updated listing of agency security staff to insure correct authorization is verified. The access provided to the DIS programmers will not be altered. This access is needed to support personnel and payroll production. Due to the quick response needed when problems arise, this will continue to be the practice. Each programmer will be reminded of the responsibility associated with this access.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-WFDC-7: The Workforce Development Cabinet Should Improve Logical Access Security Procedures For The Unemployment Insurance Systems**

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State Agency: Division of Unemployment Insurance

The Workforce Development Cabinet (WFDC) did not provide adequate security for the Unemployment Insurance Systems (UIA/UIB). WFDC security did not ensure proper segregation of duties and documentation supporting system access requests did not exist for all changes made. Review of WFDC computer security procedures for granting authorized access to DIS programmers through the Time-Sharing Option (TSO) resulted in the following exceptions:

- One DIS production coordinator was given update access to a production library. WFDC did not have proper documentation for this access request.
- Three DIS programmers were given update access to a UIB dataset.

Providing programmers with update access to production data and/or job control libraries is a segregation of duty weakness that increases the risk of unauthorized changes to data or programs. In addition, the propriety of user access cannot be ensured without an approved documented access request for users.

System security should be administered in such a way as to ensure proper segregation of duties. Employees should be granted the minimum access necessary for the completion of their job duties. A strong security environment will not allow programmers access to data without authorization and oversight. Furthermore, documentation should be available to verify proper authorization of system access granted.

**Recommendation**

The update level of access granted to DIS employees should be removed by the WFDC security coordinator. If DIS employees are granted update access, it should only be in an emergency situation, in which case, activity should be closely monitored. The WFDC security coordinator should promptly revoke the access granted once the emergency situation is resolved. Further, established access control procedures should be consistently followed by retaining documented access authorization for all changes made system user access.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-WFDC-7: The Cabinet For Workforce Development Should Improve Logical Access Security Procedures For The Unemployment Insurance Systems (Continued)**

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**Management's Response and Corrective Action Plan**

*Based on the memo from personnel within the Division of Computer Services in WFDC, "the security files/folders are open to auditing at any time. A twelve-page documented report was provided to this group of auditors on June 28, 1999, regarding access for DIS programmers. You may rest assured that any update access for DIS programmers to data files for the UIA / UIB systems that has not been changed from update to read, will be done immediately. In addition, future access for DIS programmers to these two systems (UIA & UIB) will require a written request from a supervisor and will be set up for a very limited time only."*

**Auditor's Response**

The auditor would like to clarify the fact that the report developed and provided by the Division of Computer Services was based upon our request for documentation of current access levels for DIS employees.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

***Material Weaknesses Relating to Internal Controls and/or Compliance:***

**FINDING 98-CHS/CDP-8: Custom Data Processing, Inc Should Update All Systems To Be Year 2000 Compliant**

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State Agency: Cabinet for Health Services

Custom Data Processing, Inc (CDP) operates as a systems integrator for the Cabinet for Health Services. The services provided include the supply and maintenance of functional and financial software applications, the processing of data, technical support and training, and the provision of data telecommunications.

CDP management is currently in the process of assessing the Year 2000 status of their systems, updating systems to handle the Year 2000, and testing such systems that are believed to be compliant. CDP has a contractual requirement with the Cabinet for Health Services to be Year 2000 compliant by 12/31/99 and to provide quarterly updates on their Year 2000 efforts to CHS.

It is critical that all enterprise-wide systems and electronic equipment be evaluated, and steps be taken immediately to update or replace systems so they are compatible for the year 2000.

All systems at CDP are not currently Year 2000 compliant.

Computer systems and processing could be seriously impaired beyond the Year 2000. The Year 2000 could also potentially affect core business functions.

**Recommendations**

We recommend that CDP continue to address the Year 2000 as it relates to its' systems and business. Testing of all applications should be completed by mid-1999. Formal contingency plans should be developed to ensure that the business, and in effect, the business of the Cabinet for Health Services, continues in the event that an unknown Year 2000 problem affects the company.

**Management's Response and Corrective Action Plan**

*CDP is in the process of completing our Year 2000 related projects. A complete discussion of the status of the Year 2000 is contained on page 82 of this report.\**

*\*The report referred to is a separate report and not included in the Statewide Single Audit of Kentucky.*



**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-DIS-9: The Department Of Information Systems (DIS) Should Continue Efforts With The Agencies To Ensure All Vendor And DIS Provided Applications And Systems Are Compliant With The Year 2000**

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State Agency: Department of Information Systems

During the past two audits, it was noted that the Department of Information Systems (DIS) management was researching the issues surrounding the extensive resources which are necessary to update or replace current systems to be compatible for the year 2000. This has been routinely communicated to the agencies. However, many agencies have not taken the initiative to address the issue immediately. There has been the fear across DIS management that the agencies are waiting to address this issue, and will be too late to adequately prepare for the year 2000.

It is critical that all systems throughout the Commonwealth be evaluated, and steps be taken immediately to update or replace systems so they are compatible for the year 2000.

Agencies have not allocated the resources for DIS to adequately address this issue in a timely manner.

Any automated process across the Commonwealth that involves a date value may be incorrect and dysfunctional after the year 2000.

**Recommendations**

We recommend that DIS continue their efforts to educate the agencies and other officials in the Commonwealth regarding the importance of addressing the year 2000 issue immediately. DIS should complete efforts to assess the resources and cost associated with the update or replacement of systems which are not compatible with the year 2000, and communicate these requirements to the appropriate agency management and officials of the Commonwealth. DIS should also continue efforts to begin these updates immediately in order to meet this critical deadline.

**Management's Response and Corrective Action Plan**

*The Department of Information Systems and the Governors Office of Management and Budget were successful in having the 1998 legislature appropriate \$6.7M for year 2000 contingencies. This money would be available for statewide Y2K projects or to agencies making a legitimate case of need.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-DIS-9: The Department Of Information Systems (DIS) Should Continue Efforts With The Agencies To Ensure All Vendor And DIS Provided Applications And Systems Are Compliant With The Year 2000 (Continued)**

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**Management Response and Corrective Action Plan (Continued)**

*The legislature also created the office of the Chief Information Officer. The Governor gave this office the responsibility for year 2000 compliance. This office has been invaluable by promoting year 2000 awareness not only in the public but the private sector as well.*

*The cost to become year 2000 compliant in the Commonwealth is estimated to be \$36M. Most agencies are in the remediation stage of conversion and have a compliance deadline of July 1, 1999. The mainframe legacy systems, where most mission critical systems reside, are approximately 70% completed and projections indicate completion by June 30, 1999. The project team continues to monitor and report information from the agencies. Periodic meetings with agencies are held to discuss potential problems.*

*The Year 2000 Project Team has contracted for outside expertise in two areas and intends to write two others. A Company has been awarded a contract to inventory a building facility in Frankfort for embedded chips. The assessment of this data could lead to training for state engineers to perform inventories or additional inventories by the contractor. A contractor is currently auditing the methodology and procedures within the year 2000 project and the DIS organizations responsible for remediation and testing of mainframe legacy systems. This contract will indicate if we have overlooked anything in our planning or if there are holes in the methodology.*

*A contract will be awarded to have the code in our mission critical systems evaluated. This electronic process will identify any dates in the code that were overlooked and potential problems existing in code where date routines have been changed. Finally a contract to perform independent validation and verification of code. This encompasses a full year 2000 test of systems by a third party with the users.*

*The project team is examining the possibility of obtaining compliance information from state vendors and service providers, local governments, and in state businesses and industries. This would be accomplished through a mailed questionnaire with responses reported through the Internet.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-PERS-10: The Personnel Cabinet Should Ensure Conversion Of All Critical Systems To Be Year 2000 Compliant**

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State Agency: Personnel Cabinet

Personnel has not completed all modifications necessary to make the UPPS processing Year 2000 compliant. Personnel has assessed the critical systems, received an estimate of services from DIS, and authorized DIS to make the necessary modifications. Modifications still need to be completed for mainframe-based components of UPPS. Additionally, there is one network system that also requires conversion: the Life Insurance Program. Conversion services for this system were outsourced to an external contractor.

The Year 2000 calculation is a problem associated with applications designed to save space, keystrokes, and calculation time by eliminating the "19" as the century in dates. If these systems are fed with the numbers "00" to represent the year, they may produce incorrect results as these systems may interpret this input as the year 1900 instead of 2000. If Year 2000 issues are not addressed in a timely manner, various processing problems could occur: date comparisons will not work as expected, date sorts will result in sequence errors, file merges may produce unpredictable results, data edits may fail to prevent erroneous data, and data validations and projections may not be reliable.

In order for accurate system processing to continue, it is critical that all necessary changes be made before the date field causes systems to produce inaccurate results. Modifications should be completed in sufficient time to allow testing to identify potential errors.

**Recommendation**

We recommend Personnel management take the necessary steps to ensure UPPS is made Year 2000 compliant. We recommend that any necessary modifications or replacements be accomplished in a manner that will provide adequate time for testing of any Year 2000 conversion efforts.

**Management's Response and Corrective Action Plan**

*The legacy systems will be modified to be Y2K compliant in ample time to allow testing to be conducted. The life insurance system will also be compliant in time for testing. All of the Cabinet's plans and procedures are documented to Aldona Valicenti, CIO, Commonwealth of Kentucky Year 2000 Project Team, and are available for review through that organization.*

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)

**SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

***Reportable Conditions Relating to Internal Control and/or Compliance:***

**FINDING 98-CFC-11: The Cabinet For Families And Children Should Increase Efforts To Discover And Recover Overpayments And Duplicate Payments Made To Child Care Providers Through The Child Care And Development Fund**

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State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.575-Child Care and Development Fund

Federal Agency: U.S Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Not Applicable

Amount of Questioned Costs: None

The Cabinet for Families and Children (CFC) changed procedures for paying child care providers through the Child Care and Development Fund for the period January 1, 1998 through June 30, 1998, when outside contractors assumed the duties. Enrollment Verification Forms (EAV) were prepared by service agents and sent to child care providers each month. The providers then filled out the forms to claim the number of days of care per child and returned them to the service agents. The completed forms were then used by the service agents as invoices. A cap on expenditures per child was established and EAVs were reviewed to determine that reimbursements did not exceed the cap.

CFC's Department of Social Insurance (DSI) did not fix responsibility for discovery and recovery of overpayments and duplicate payments:

- Service agents were not required in their contracts to review for duplicate billing.
- CFC did not test the effectiveness of the Kentucky Child Care Management System (KCCMS) controls intended to prevent duplicate billing.
- Reimbursement Branch personnel who prepare Purchase Orders for expenditures were not able to test for duplicate billings, since the service agents retain invoices and enter bills in KCCMS.
- Service agents made no effort to search for duplicate payments, which were not voluntarily returned, but kept and cashed by the service provider.

The aforementioned weaknesses resulted in a sharp increase in duplicate payments from the first half of FY 98. Duplicate payments which were voluntarily returned by child care providers to CFC increased from 19 for the period July 1, 1997 through December 31, 1997 to 360 for the period January 1, 1998 through June 30, 1998, a total increase of 1900%.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-11: The Cabinet For Families And Children Should Increase Efforts To Discover And Recover Overpayments And Duplicate Payments Made To Child Care Providers Through The Child Care And Development Fund (Continued)**

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OMB Circular A-133 specifies that "costs must be reasonable and necessary for the performance and administration of Federal awards." Overpayments and duplicate payments by definition are neither reasonable nor necessary.

Good accounting and business practices dictate that internal controls should be in place to prevent or promptly detect overpayments and duplication of payments.

**Recommendation**

We recommend that CFC:

- Include in future contracts a criterion that holds service brokers responsible for preventing or detecting duplicate billings and over-billings.
- Request that independent auditors of the five service brokers test for overpayments and duplicate billings.
- Modify the KCCMS system to include additional edit checks designed to discover duplicate billings.

**Management's Response and Corrective Action Plan**

*The Cabinet agrees. Contracts with service agents for FY 99-00 will include a requirement for child care service agents to prevent and detect duplicate billings or over-billings. It will also require that independent audits of the service agents include a test for overpayments. Future efforts to monitor the service agents to determine fulfillment of contract obligations will include an emphasis on the review of this problem.*

*Every time the service agent processes the EAV, they review it for correctness. If the EAV is processed through KCCMS, there are controls in the system to prevent double billing. Testing is an ongoing process with each billing cycle, as OTS [Office of Technical Services] continues to monitor, develop and enhance KCCMS.*

*When duplicate payments are identified, the service agents do make every effort, through letters and telephone calls, to recoup the duplicate payment. OTS continues to explore ways of making KCCMS more efficient. They are also exploring ways to obtain return information from Finance and Treasury in order to identify and prevent duplicate billings.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-12: The Cabinet For Families And Children Should Submit Federal Reports In A Timely Manner**

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State Agency: Cabinet for Families and Children

Federal Program: 10.561-State Administrative Matching Grants for the Food Stamp Program

Federal Agency: U.S Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Issuance and Inventory Records

Amount of Questioned Costs: None

A non-statistical sample of FNS-250s, Food Coupon Accountability Report, from the second quarter of FY 98 was tested. Due to incorrect inventory balances for \$2.00 and \$7.00 coupons reported for Fayette County in the initial FNS-250 reports, revised FNS-250s for the second quarter were submitted to FNS on April 8, 1998. Federal regulations require that revised FNS-250 reports be submitted within 105 days after the end of the report month. Based on this requirement, the revised FNS-250 reports for October and November 1997 were submitted 54 and 24 days late, respectively.

Late submission of the revised FNS-250 reports appears to be caused by untimely identification of incorrect inventory balances.

Failure to identify incorrect amounts reported on the FNS-250 in a timely manner could result in improper reporting amounts on present and future FNS-250s.

CFR Volume 7, Section 274.4, "Reconciling and Reporting," states that "the Form FCS-250 shall be reviewed by the State agency for accuracy, completeness, and reasonableness . . . any revisions to the Form FCS-250 for a given month shall be submitted to FCS within 105 days after the end of the report month."

**Recommendation**

DSI should ensure that each FNS-250 is reviewed for accuracy, completeness, and reasonableness. FNS-250 reports should be compared to prior reports to determine proper beginning and ending inventory balances. In addition, any revisions made to previously submitted FNS-250 reports should be promptly submitted to FNS when discovered.

**Management's Response and Corrective Action Plan**

*We concur with the recommendation stated. Procedures have been initiated to review the FNS-250 for completeness and accuracy. Any revisions to previously submitted FNS-250 will be promptly submitted to FNS.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-13: The Cabinet For Families And Children Should Improve Efforts To Enforce The Policies In Relation To The State Administrative Matching Grants For The Food Stamps Program**

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State Agency: Cabinet for Families and Children

Federal Program: 10.561-State Administrative Matching Grants for the Food Stamp Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Claims Against Households

Amount of Questioned Costs: None

A random sample of 100 Claims Against Households cases established during July 1, 1997 through June 30, 1998, was selected for testing to determine compliance with Federal regulations. Based upon the tests performed, 37 of 100 (37%) claims were not established within six months of the discovery date. On average, it took eight months to establish a claim against a household from the time an over-issuance was initially discovered.

Failure to establish a claim against a household within 6 months of the discovery date is a violation of Federal regulations and agency policy. Delays in establishing a claim against a household makes it very difficult for the agency to collect and prosecute if the claim type is an Intentional Program Violation (IPV). In addition, when an excessive amount of time is taken to establish a claim against a household, collection of the claim is often suspended or terminated because the household cannot be located or the cost of collection may exceed the amount that can be recovered. This results in old/uncollectible receivables for claims, many of which are inactive, being carried forward for many years on the PAFS-434 Report

The Field Services Operation Manual, Volume I, Section 1515, Reporting Claims Activity, states: "For FS, by the end of six months from the date the suspected overissuance is first entered on the KCA system complete form FS-400, Claim Determination Report, and send either FS-412, Repayment Request, or FS-413, Intentional Program Violation Repayment Notice, or determine no overissuance exists and update the KCA system."

**Recommendation**

We recommend that DSI enforce the policies set forth in the Field Service Operations Manual regarding claims establishment.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-13: The Cabinet For Families And Children Should Improve Efforts To Enforce The Policies In Relation To The State Administrative Matching Grants For The Food Stamps Program (Continued)**

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**Management's Response and Corrective Action Plan**

*By early Fall of 1999, the Department of Community Based Services will send a management team to county offices to review for claims policy and procedure compliant.*



**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-14: The Cabinet For Families And Children Should Improve Efforts To Document Procedures For Low Income Home Energy Assistance Branch**

State Agency: Cabinet for Families and Children  
Federal Program: 93.568-Low Income Home Energy Assistance  
Federal Agency: U.S Department of Health and Human Services  
Pass-Through Agency: Not Applicable  
Compliance Area: Reporting  
Amount of Questioned Costs: None

The Department does not have written procedures for the administration of the Low Income Home Energy Assistance Program (LIHEAP) for the method used to calculate the crisis reserve amount or for the manner in which data was compiled for the statistics report.

Without written procedures, Federal regulations could be violated and tasks improperly performed. Lack of written procedures could result in an insufficient amount of funds being reserved until March 15. Also, data for thousands of applications is entered into a database, sorted, and compiled for the statistics report. The lack of written procedures could result in the erroneous compilation of data used to complete the statistics report.

Effective internal control dictates that written procedures be developed for vital processes.

**Recommendation**

The Energy Assistance Section should document procedures for the calculation of the crisis reserve and for the compilation of data used in the statistics report.

**Management's Response and Corrective Action Plan**

*The Energy Assistance Section will develop written procedures describing the process for calculating the crisis contingency fund to ensure that the reserve amount is not exceeded. Written procedures will be developed describing the process by which data is compiled for the annual report. In 1998-1999 the contractor is using a database to sort and compile data.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-15: The Cabinet For Families And Children Should Develop  
And Enforce Strict Sanctions In Relation To The Social Services Block Grant**

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State Agency: Cabinet for Families and Children  
Federal Program: 93.667-Social Services Block Grant (SSBG)  
Federal Agency: U.S Department of Health and Human Services  
Pass-Through Agency: Not Applicable  
Compliance Area: Subrecipient Monitoring  
Amount of Questioned Costs: None

The Department for Social Services (DSS) did not take appropriate action against subrecipients who failed to obtain and submit an audit report.

DSS, as a primary recipient of Federal funds, makes subcontracts or subawards to subrecipients. As the oversight department, DSS must ensure subrecipients are complying with applicable Federal regulations governing the funds distributed. These Federal regulations require audit reports and schedules. These reports should include specific types of information and opinions. A part of the oversight function is to ensure auditors are submitting audit reports that comply with Federal regulations. This could be accomplished by using a tracking system and by enforcing sanctions against subrecipients who do not comply with the audit requirement.

Due to the refusal of subrecipients to submit audit reports, the contracts cannot be closed for the year. In addition, DSS cannot determine if the audits were prepared in accordance with Federal regulations, nor provide reasonable assurance that SSBG funds were spent in accordance with Federal regulations.

OMB Circular A-133 requires that state or local governments ensure that subrecipients spent Federal assistance funds in accordance with applicable laws and regulations. This may be accomplished by requiring subrecipients to submit an audit report.

**Recommendation**

We recommend CFC:

- Include a statement in the next subrecipient contract regarding sanctions to be taken against a subrecipient who refuses to submit an audit report.
- Develop and enforce strict sanctions against the subrecipient when the subrecipient refuses to submit an audit report.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-15: The Cabinet For Families And Children Should Develop And Enforce Strict Sanctions In Relation To The Social Services Block Grant (Continued)**

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**Recommendation (Continued)**

OMB Circular A-133, section 225, lists suggested sanctions, such as:

- Withholding a percentage of Federal awards until the audit is completed satisfactorily.
- Withholding or disallowing overhead costs.
- Suspending Federal awards until the audit is conducted.
- Terminating the Federal award.

**Management's Response and Corrective Action Plan**

*At the request of the Cabinet Secretary, the Cabinet included in the FY 2000 contract, entitled REMEDIES FOR BREACH, which states:*

*It is agreed by both parties that in the event of breach of contract by the Second Party, the Cabinet may pursue any remedy available to it pursuant to this contract, or to the provisions of KRS Chapter 45 A, or any remedy that is available to it at law. The remedies available to the Cabinet may be invoked without regard to the existence of any other available remedy, and may include the payment of any specified liquidated damages by the Second party to the Cabinet for noncompliance as provided for in this contract.*

*In addition, the Cabinet is also in the process of developing criteria for contract cancellation for noncompliance and will take into consideration the suggested sanctions provided by the APA.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-16: The Cabinet For Families And Children Should Integrate Systems To Improve The Claims Process For The TANF Program**

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State Agency: Cabinet for Families and Children

Federal Program: 96.558-Temporary Assistance for Needy Families Program

Federal Agency: U.S Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Collection of Overpayments

Amount of Questioned Costs: None

The FY 97 audit of CFC disclosed a reportable condition relating to claims establishment. During the prior year audit, we tested a sample of 93 claims and noted that the length of time to establish claims was excessive and the length of time between inactivation and transfer to the Collections Branch was excessive.

The CFC has 30 days to establish a claim against a household, once discovered. After 30 days, claims are considered inactive and must be forwarded to the Collection Branch.

In its response to the finding, the agency agreed with our recommendations and said that the KCA and KCL systems would be linked and that all transfers to and from the Collections Branch, as well as automated benefit reduction and automated notices, would be processed without worker intervention. However, we tested the internal controls over claims during the FY 98 audit and found that the deficiencies have not been corrected.

We tested a random sample of 60 claims against households that were established (i.e., confirmed as being an overpayment after first being listed as a possible overpayment) between July 1, 1997 and June 30, 1998 and noted the following problems:

- CFC did not establish claims in a timely manner, once discovered. Once discovered, claims must be established by the end of the next quarter.
- CFC did not act promptly to inactivate and forward claims to the Collections Branch in the Division of Administrative Reviews.
- CFC did not submit claims to the Collections Branch within 30 days when payments were not received.
- CFC personnel state that delays in establishing claims were due to understaffing.
- The KCA database, which tracks claims being pursued by local DSI offices, and the KCL database, which tracks claims that are being pursued by the Collections Branch of CFC, are separate files which have limited interface with each other. This scattering of information in more than one location makes tracking much harder. In addition, information can get lost when claims are transferred from one database to the other.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-16: The Cabinet For Families And Children Should Integrate Systems To Improve The Claims Process For The TANF Program (Continued)**

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- The KCA system does not generate a report to remind field office personnel to inactivate claims, or to forward inactive claims to Collections, after an appropriate amount of time.

Based on our audit, we conclude that the Cabinet for Families and Children has materially misrepresented its corrective action plan.

Collecting overpayments is more difficult when claims are not timely established, as recipients often are no longer receiving benefits which can be reduced (the preferred and usual means of recovery); they may have moved leaving no address; and, fraud cases are harder to prosecute.

Field Services Operation Manual, Vol. I, section 1800 says, "Repayment must be pursued on all overpayments discovered on or after April 1, 1982, regardless of the amount or when the overpayment occurred."

904 KAR 2:016, Section 10 (1) says, "Necessary action will be taken promptly to correct and recoup any overpayments."

Good accounting practice dictates that overpayments be identified and pursued promptly to maximize the likelihood of full recovery.

**Recommendation**

We strongly recommend that the KCA and KCL databases, now separate files for claims being pursued locally and claims being pursued by Collections, be fully integrated. We understand that KCL is to be completely rewritten in the immediate future to make it Year 2000 compliant. However, an integrated system, capable of tracking a case from day one, would greatly improve the efficiency of collection efforts.

We also recommend adding to the KCA system an automatic reminder to field office personnel to inactivate claims, and to forward inactive claims to the Collections Branch, after an appropriate amount of time, when payments are not received.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-16: The Cabinet For Families And Children Should Integrate Systems To Improve The Claims Process For The TANF Program (Continued)**

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**Management's Response and Corrective Action Plan**

*Effective March 1, 2000, the KCA, KCL and KAMES databases will interface. Once a claim is established, the worker is no longer required to transfer the claim, impose benefit reduction or send any type of notice or repayment agreement. All of these will be system driven and generated. A spot check is unnecessary.*

*Except for the creation of some new reports (i.e. automation of those still done manually) and new software to deal with changes in the Federal government's methods of identifying debts for tax refund interception, the rewrite of KCL is complete and Y2K compliant. The new KCL system is presently being integrated more fully with KCA and KAMES to allow for correct and prompt identification of inactive claims and the transmitting of same as they are transferred among KAMES, KCA, and KCL. Mr. Bob Overberg of the claims section within the Cabinet's Department for Community Based Services is directing and coordinating this project to improve the interfacing of the three data bases and the tracking of claims.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-17: The Cabinet For Families And Children Should Develop A System To Track TANF Recipients Who Refuse To Cooperate In Establishing Paternity**

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State Agency: Cabinet for Families and Children

Federal Program: 96.558-Temporary Assistance for Needy Families Program

Federal Agency: U.S Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions-Child Support Non-Cooperation

Amount of Questioned Costs: None

TANF recipients who refuse to cooperate with the CFC in establishing paternity are classified in the Kentucky Automatic Management Eligibility System (KAMES) system as “389 Disqualifications” and their TANF benefits are then reduced by 25 percent or terminated altogether. While “389 Disqualifications” are shown in the KAMES system, disqualification information is only available for those individuals who are currently receiving reduced benefits.

CFC does not maintain current or historical records of the individuals who have been classified as “389 Disqualifications” for non-cooperation in establishing paternity or in establishing, modifying, or enforcing a child support order. The KAMES system does not produce reports which show historical data.

CFC does not track “389 Disqualifications” or produce a report of those individuals who the Division of Child Support (DCS) has determined require a benefit reduction/termination due to non-cooperation. Therefore, there is no system in place for monitoring the cases referred by DCS for benefit reduction/termination due to non-cooperation.

CFC’s compliance with OMB Circular A-133, 4-93.558-10, section N (1), cannot be determined. The cases which have been classified as “389 Disqualifications” cannot be reviewed for completeness and accuracy by CFC or the auditing agency. In addition, those cases referred to DSI for non-cooperation which have **not** had their benefits reduced or eliminated cannot be monitored or tracked, thus, preventing CFC or the auditing agency from determining the amount of TANF funds which should have been recovered from such cases. Finally, failure to monitor and track “389 Disqualifications” could result in overpayments to TANF recipients who should have had their benefits reduced.

OMB Circular A-133, Subpart C, section .300, says, “The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its Federal programs.”

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-17: The Cabinet For Families And Children Should Develop A System To Track TANF Recipients Who Refuse To Cooperate With The Cabinet In Establishing Paternity (Continued)**

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OMB Circular A-133, 4-93.558-10, section N(1.) says, "If the State agency responsible for administering the State plan approved under Title IV-D of the Social Security Act determines that an individual is not cooperating with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, and reports that information to the State agency responsible for TANF, the State TANF agency must (1) deduct an amount equal to not less than 25 percent from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance. U.S. Department of Health and Human Services (HHS) may penalize a State for up to five percent of the State Family Assistance Grant (SFAG) for failure to substantially comply with this required State child support program (42 USC 608(a)(2) and 42 USC 609(a)(8))."

45 CFR 92.20 (a) (2) says, "Fiscal control and accounting procedures of the State...must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

**Recommendation**

We recommend CFC develop policies and procedures for monitoring and tracking TANF cases which are determined by DCS to be "389 Disqualifications" due to non-cooperation in establishing paternity or in establishing, modifying, or enforcing a child support order.

**Management's Response and Corrective Action Plan**

*We will research the possibility of a system spot check and tracking of the non-cooperation identified by DCS or the contracting official.*



**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-18: The Cabinet For Families And Children Should Monitor Day Care Centers That Receive Grant Monies Through The Child Care And Development Fund**

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State Agency: Cabinet for Families and Children

Federal Program: 93.596,93.575, 93.595-Child Care and Development Fund, Child Care And Development Block Grant

Federal Agency: U.S Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

Kentucky day care centers can receive start-up and mini-grant contracts through the Child Care and Development Fund for up to \$30,000 for training, equipment, and payroll needs, to improve the quality of their services.

CFC does not adequately monitor how well these day care centers comply with laws and regulations in the use of mini-grant funds, thus, grant funds may be used inappropriately and does not audit the mini-grant contracts except when fraud is suspected.

Although audits of contracts for less than \$300,000 are not required by statute, good accounting practice suggests that at least a sample of contracts be audited each year. While each contract is for no more than \$30,000, combined, the mini-grant contracts totaled \$5,240,535 in FY 98.

**Recommendation**

We recommend CFC's Contract Monitoring Branch select a sample of day-care providers to be audited by OIG each year, in addition to their quarterly monitoring.

**Management's Response and Corrective Action Plan**

*Beginning with Fiscal year 1999-2000, the Division of Outcome Based Contracts, Contract Accountability Branch, will complete fiscal monitoring of a minimum of 10 percent of child care start-up and mini-grant providers. The monitoring will be based on a random sample of contractors in at least 5 of the 16 Cabinet's service regions. The plan will be to monitor a sample of centers by Region on a rotating basis.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-19: The Cabinet For Families And Children Should Maintain All Billing And Eligibility Documentation To Support Payments To Families Receiving Assistance From The Child Care And Development Fund**

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State Agency: Cabinet for Families and Children

Federal Program: 93.596, 93.575, 93.595-Child Care and Development Fund, Child Care And Development Block Grant

Federal Agency: U.S Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs and Eligibility

Amount of Questioned Costs: None

The Child Care and Development Fund (CCDF) subsidizes child care expenses for low-income families. On January 1, 1998, billing and eligibility determination functions for CCDF were transferred from CFC to five outside service agencies under contract.

We tested the case files of 55 families, whose eligibility was determined by the service agencies, and noted the following weaknesses:

- Twenty-six files did not contain all documents necessary to verify eligibility; documentation of eligibility by the service agencies was weak overall.
- Twelve of the 55 families, whose co-payments were calculated by the service agencies, were incorrect. The parents' share of child care fees (the co-payment) was often incorrectly determined: two due to incorrect calculation of the families' income; six due to incorrect use of the sliding scale of parent fees; and, four due to both causes.
- Two families did not have eligibility re-determined by June 30<sup>th</sup> and were not terminated for cause.
- One family, who was not even eligible for state-subsidized child care, was incorrectly determined to be eligible.

CFDA 93.596:113 and CFDA 93.575:113 (Federal regulations governing CCDF and CCDBG, respectively) both state "proper grant accounting records must be maintained."

OMB Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Organizations," Compliance Supplement states, "Costs must be reasonable and necessary for the performance and administration of Federal awards."

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-19: The Cabinet For Families And Children Should Maintain All Billing And Eligibility Documentation To Support Payments To Families Receiving Assistance From The Child Care And Development Fund (Continued)**

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**Recommendation**

CFC should require service agency personnel to obtain and maintain copies of all documents needed to verify a family's eligibility for assistance. Documents that would support a family's eligibility for assistance include the following items:

- Contract, signed by the parent, child care provider, and authorized service agency counselor.
- Identification for all members of the family, such as social security cards or driver's license.
- Proof of the date of birth for each child for whom child care will be subsidized. Social Security cards do not indicate the child's date of birth or parentage, while birth certificates do provide this information.
- Proof of special need for any child whose care will be subsidized at the special needs rate.
- Evidence of the family's income, including the most recent month's pay stubs, as well as independently obtained information regarding other public assistance that a family may have received.

We also recommend that if the computer system, KCCMS, is not relied upon to calculate monthly family income, service agency personnel should receive additional training in calculation of this figure. This will aid in correctly determining the family's income, co-payment, and the state's share of the provider's daily rate.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-19:** The Cabinet For Families And Children Should Maintain All Billing And Eligibility Documentation To Support Payments To Families Receiving Assistance From The Child Care And Development Fund (Continued)

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**Management's Response and Corrective Action Plan**

*Each counselor will receive written notice as to what should be included in a case file. The Division of Child Care will require service agents to provide an updated list of counselors. As staff turnover occurs, service agents will provide new counselors with the above information. Training will be provided to service agents at least two times per year. The forum for this will be the monthly service agents' meeting. Information will also be detailed in the revised Handbook. Additionally, the current Handbook includes information on how to calculate income.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-20: The Cabinet For Families And Children Should Maintain Adequate Records To Ensure Compliance With Health And Safety Requirements**

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State Agency: Cabinet for Families and Children

Federal Program: 93.596,93.575, 93.595-Child Care and Development Fund, Child Care And Development Block Grant

Federal Agency: U.S Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: None

CFC and its subrecipients, the five service agencies, did not maintain adequate records to determine which unregulated child care providers were required to enroll. Enrollment is required of unregulated providers who are not related to the children they baby-sit to ensure that they meet minimal health and safety requirements.

We tested eleven unregulated providers who were not related to the children they cared for in FY 98, and who therefore should have been enrolled; only four of them were enrolled. Thus, the state is not in compliance with Federal requirements to register unregulated child care providers to ensure that they meet the minimal requirements.

The aforementioned weaknesses are the result of the State's new computer system, KCCMS, installed on January 1, 1998, to track all billing and eligibility information. Because KCCMS does not identify which unregulated providers should enroll, the service agencies may have difficulty tracking providers' compliance, or acting to terminate payments to providers who are not in compliance.

Auditors were unable to test for compliance with State policies concerning required documents for enrollment of providers. We were unable to draw any statistically useful conclusions from a review of only four enrolled providers. In addition, we were unable to determine whether CFC or the service agencies acted to terminate payments to providers who failed to enroll.

CFDA 93.596:113 and CFDA 93.575:113 both state proper grant accounting records must be maintained.

45 CFR 98.45 requires that all child care providers not licensed or certified be registered prior to receiving payment. 45 CFR 98.41 requires that all providers other than relatives of the child meet "requirements designed to protect the health and safety of children ...."

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-20: The Cabinet For Families And Children Should Maintain Adequate Records To Ensure Compliance With Health And Safety Requirements (Continued)**

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The Service Agent Child Care Assistance Handbook, Guideline #7, states that “an unregulated non-relative provider shall become enrolled to meet minimal health and safety requirements.”

**Recommendation**

We recommend CFC:

- Change the “Provider Type Codes” in the KCCMS system to distinguish between the types of unregulated child care providers.
- Monitor providers’ compliance with enrollment requirements.

**Management’s Response and Corrective Action Plan**

*Beginning January, 1999, DIS generated a list of every provider by type that was in KCCMS. This list was then cross-checked with the directories for certified homes, and enrolled providers. The list was sent to the service agents in the early spring to investigate the status of each provider and obtain any necessary documentation. This documentation is currently being checked and processed by the Department of Child Care enrollment staff. In addition, DIS is presently developing a process [allowing] a distinction to be made between types of unregulated child care providers.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-21: The Cabinet For Families And Children Should Ensure That Complete Records Are Maintained For TANF Recipients**

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State Agency: Cabinet for Families and Children

Federal Program: 96.558-Temporary Assistance for Needy Families Program

Federal Agency: U.S Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility For Transportation Costs Under Kentucky Works

Amount of Questioned Costs: None

The FY 97 audit of CFC disclosed a reportable condition relating to transportation payments to participants in the Kentucky Works program.

During FY 97, we tested a sample of 55 cases and noted the following: twenty-one cases did not have adequate documentation to determine the validity of the payments, resulting in questioned costs of \$1,266; seven cases could not be located at all; one case where verification of college attendance was not located; and six cases where the recipient traveled either more or fewer days than estimated, but no effort was made to recoup overpayments or reimburse underpayments. The agency, in its response, indicated that it would emphasize to field staff the importance of ensuring that complete records on each case are created and maintained. However, during testing for the FY 98 audit, we found that the deficiencies have not been corrected.

Specifically, we tested and evaluated the internal controls in place over Support Services, part of the Kentucky Works initiative of the TANF program. We selected a random sample of 60 payments for transportation costs incurred, by participants in Kentucky Works, between July 1, 1997 and June 30, 1998 and noted the following problems:

- All documentation was missing for 8 out of 60 payments tested.
- Five recipients did not attend class and did not provide a “good cause” for absence.
- Five cases in which CFC did not take appropriate action to recover overpayments. Or there was no documentation to show the agency had taken action to recover overpayments or adjust underpayments.

Based on our review, we conclude CFC has materially misrepresented its corrective action plan.

The agency is not in compliance with 45 CFR 255.4(j)(1). Failure to recover overpayments overstates allowable transportation expenditures.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-21: The Cabinet For Families And Children Should Ensure That Complete Records Are Maintained For TANF Recipients (Continued)**

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45 CFR 255.4 (j) (1) states: “The state must take all reasonable steps necessary to promptly correct any overpayments to a recipient or service provider.”

**Recommendation**

We recommend that CFC Field Office supervisors emphasize to all caseworkers the necessity of ensuring that complete records on each case are created and maintained.

**Management’s Response and Corrective Action Plan**

*We will emphasize in training sessions as well as staff meeting the importance of the completion and maintenance of the verification forms. As we move toward statewide implementation of Empower Transportation, there will be less and less direct payments made to the client. Eventually, no transportation payments will be made directly to the client. Some of the “missing” verification may be due to participation in JRA. Transportation for JRA does not require a form to be completed. The payment automatically made for JRA. Without knowing the cases involved, we are unable to determine if this is the situation. If you can identify the specific cases, we can follow-up.*



**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-22: The Cabinet For Families And Children Should Maintain Records To Support Payments To Participants In The Kentucky Works Program**

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State Agency: Cabinet for Families and Children

Federal Program: 96.558-Temporary Assistance for Needy Families Program

Federal Agency: U.S Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility For Nonrecurring Costs Under Kentucky Works

Amount of Questioned Costs: None

The FY 97 audit of CFC disclosed a reportable condition relating to payments made to participants in the Kentucky Works Program. We tested a sample of 57 PA-32 documents that reflect non-recurring payments to participants in the Kentucky Works Program and noted numerous problems with these payments. In its response to the finding, the agency agreed with our recommendations, indicating that field service staff would be advised to obtain and review all forms before payments were made. However, we tested payments again during FY 98 and found that the deficiencies in this area have not been corrected.

Specifically, we reviewed a sample of 60 PA-32's that reflect non-recurring payments to participants in the Kentucky Works Program and noted an overall lack of documentation and numerous clerical errors in the handling of these payments:

- All documentation was missing for 5 of 60 payments sampled; these were "code 50" payments.
- All documentation was missing for 1 "code 20" payment.
- Twelve were not signed by the participant and the provider.
- Five expenditures exceeded the maximum amount entered on the PA-32.
- Five providers did not return their PA-32s within 30 days.
- Five providers did not complete the provider's portion of the PA-32.

Because CFC failed to consistently follow existing internal controls, it cannot be assured that all payments for non-recurring expenses were valid and authorized payments. And, therefore, we conclude that CFC has materially misrepresented its corrective action plan.

The PA-32 Procedural Instructions are presented in the DSI Division of Field Services' Forms Manual. The instructions include detailed descriptions of how the PA-32 should be completed by case workers.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-22: The Cabinet For Families And Children Should Maintain Records To Support Payments To Participants In The Kentucky Works Program (Continued)**

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- 45 CFR 92.20 (a) (2) states: “Fiscal control and accounting procedures of the State . . . must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.”
- 45 CFR 92.42(b) (1) states “. . . records must be retained for three years from the starting date specified in paragraph ( c ).”

A strong internal control structure dictates that procedures be followed to ensure that payments are made only for approved, allowable, goods and services.

**Recommendation**

CFC should ensure that records are produced and maintained to adequately support TANF expenditures. Because the problem of missing documentation is so pervasive, we recommend that CFC consider developing new procedures for maintaining participant files.

We also recommend that Division of Field Services supervisors reiterate to all caseworkers the importance of completing and reviewing all forms before payments are approved.

**Management’s Response and Corrective Action Plan**

*There is no documentation other than in the Comments in the case record concerning code 20 payments. No forms are completed for the code 20 payments. There is no time frame for providers to return the PA32 forms. The client has 30 days to take the form to the provider.*

*We will emphasize in training, as well as staff meetings, the importance of the completion and maintenance of the forms. We will also emphasize the importance of completing and maintaining the logs.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-23: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Supporting Documentation Is Maintained**

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State Agency: Cabinet for Families and Children  
Federal Program: 93.658-Foster Care-Title IV-E  
Federal Agency: U.S Department of Health and Human Services  
Pass-Through Agency: Not Applicable  
Compliance Area: Eligibility  
Amount of Questioned Costs: \$4,325

CFC is responsible for administering the Foster Care – Title IV-E Program, placing children in foster homes and ensuring that caregivers meet the eligibility requirements. Children who are placed in the custody and care of the State live in foster homes, until such time that they can be adopted or returned to their biological parents. The caregivers for these children receive monthly assistance from CFC to provide for their basic needs.

The FY 97 audit of CFC disclosed a reportable condition regarding missing documentation and late eligibility re-determinations. CFC disagreed with our findings and recommendations and stated that all future Foster Care – Title IV-E cases would be recorded in The Worker's Information System (TWIST). However, during the FY 98 audit, we noted similar problems.

Specifically, we tested a sample of Foster Care – Title IV-E case files for adequate internal controls, compliance with Federal regulations, and compliance with the eligibility sections of CFC's Foster Care – Title IV-E program manual. During our review, we noted the following exceptions:

- Five missing social security cards out of 70 case files examined;
- Nine missing DSS-110 forms;
- Four missing DSS-111A or DSS114 forms (provider contracts) out of 65 case files examined;
- Ten late eligibility redeterminations out of 65 case files examined; and,
- Seven instances of the rates not agreeing from the DSS-111A or DSS-114 to the DSS-110.

Internal controls over eligibility and reimbursements were not adequate to ensure compliance with Federal regulations. To ensure compliance with Federal Regulations, for each case, there should be an observable record of documents used to determine eligibility and to determine that the correct reimbursement rates were applied, thus each time an eligibility re-determination or a rate change is effected, case files should be updated.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-23: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Supporting Documentation Is Maintained (Continued)**

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Based on the results of our audit, we conclude that CFC has materially misrepresented its corrective action plan.

A child's last name can change for many reasons. A copy of the child's social security card should be included in the case file to prevent the same child from erroneously receiving benefits under two different last names.

By not including the DSS-110s in the file, there is no way to determine or verify that the DSS-110 was audited for the application of the correct rates and reasonable expenditures.

Failure to have an updated DSS-111A or DSS-114 could result in erroneous payments to foster homes. The lack of DSS-111As or DSS-114s in the file resulted in \$4,325.38 of actual questioned costs charged to the Federal government. When the error is projected to the population, the result is \$358,924.54 in questioned costs charged to the Federal government.

Failure to make timely redeterminations could result in payments to foster homes on behalf of children who have lost their reimbursability.

Good internal controls dictate that eligibility for Foster Care program be adequately documented. The state is responsible for the care and placement of foster children. Whether or not the state meets the responsibility can best be determined through the examination of case files and the documents in the case files.

Public Law 96-272, Section 475 (5) (B) of Part E requires that all foster care cases be re-determined every 6 months.

The DSS Program Manual, Chapter IV, Family and Children Services section which states the DSS-111A brings the foster home contract into effect for a particular child. It states that the time the child is placed in foster care, the worker should complete section A and B of the DSS-111A and take it to the foster parent to sign in section C.

The Out of Home Section in Chapter IV of the DSS Program Manual requires that the DSS-111A be updated when a rate for a child already in foster care is changed.

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)

**FINDING 98-CFC-23: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Supporting Documentation Is Maintained (Continued)**

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**Recommendation**

We recommend CFC:

- Develop procedures to ensure that copies of the child's social security card and DSS-110s are maintained in the child's case file.
- Complete DSS-111As when a child is placed in a foster home *and* when the rate changes for a child already placed. These forms should be retained in the case file.
- Perform re-determinations of reimbursability every six months. The re-determinations should be documented on the DSS Form 1262 and placed in the child's case file.

**Management's Response and Corrective Action Plan**

- 1) *Five missing social security cards out of 70 case files examined; Attached is a memo from Gary Dodge, Institute For Human Services Management, Inc., consultant to Cabinet for Families and Children, and ACYF PA 86-01, dated 2-25-86. The PA states unequivocally that IV-E does not require a social security number, or the presentation of a social security number to achieve or sustain IV-E eligibility. The policy on page 3 has been highlighted for your benefit and it has been in effect since 4-1-85. We have addressed this in previous years' responses. We will make every effort to obtain a social security card, but it is not an error if no card is in the case.*
- 2) *Missing DSS 110's: seven of the missing 110's were provided by Imprest Cash; one of the exceptions was a group home and is a state owned facility and does not require a contract or 110. Another exception was for a missing placement history log; this is attached. One exception was outside the audit period and no 110's were required for that placement. The auditors reviewed all 110's the week of July 19-23, 1999.*
- 3) *A request for corrected DSS 111 A's, or missing DSS 111 A's will be made. The documents will be provided to the auditor. There was one exception and that case does not require a 111A. That exceptions placement was a state group home.*
- 4) *For the DSS 111 A, one exception has been reviewed by the auditor and is correct. The DSS 111 A and DSS 114 for another exception was provided to the auditor.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-23: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Supporting Documentation Is Maintained (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

- 5) *Past due redeterminations noted in the record of noncompliance will be completed and provided to the auditor. Claim adjustments will be made if necessary. ACYF-PIQ-85-6, U.S. Department of Health and Human Services, pages 4-5, question 3 states that failure to hold a timely redetermination is a program issue, rather than an eligibility issue for IV-E. Federal regulations is silent on the number of months for redetermination. State Policy 90.3 requires redetermination every 12 months. This change was made due to the heavy case load carried by CBW's.*
- 6) *The implementation of foster care payments through TWIST should eliminate any threat of error in regards to DSS 111A's and DSS 110's of rates not agreeing. Policy requires notification to the CBW, of change in placement and rates. TWIST currently provides notification through ticklers (generated by FSW input in cases) when a child enters care, exits care, or changes placement, income, assets or custody. This alert allows CBW's to make changes in eligibility (if a child returns home) or reimbursability (if income, resources, deprivation or placement changes). A formal redetermination will be completed in TWIST, using the DSS 1262, every 12 months as required by policy.*

**COMMONWEALTH OF KENTUCKY  
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FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-24: The Cabinet For Families And Children Should Implement Adequate Procedures To Ensure The Accuracy And Completeness Of KCCMS Generated Interface Files And Check Tape**

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State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.575 – Child Care and Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

During fiscal year ended June 30, 1998, CFC did not develop or implement formal procedures to ensure the accuracy and completeness of KCCMS information submitted to STARS. An interface was developed to allow KCCMS to transmit child care related payment information to STARS for check creation and recording purposes.

Our reconciliation revealed that the information recorded within STARS for fiscal year 1998 KCCMS payments was incomplete. The following discrepancies were noted:

- Four batches, or purchase orders, noted within KCCMS for the period could not be traced to STARS. These four documents processed (PODC0009-0011 and PODC0014) totaled \$213,574. Since these documents could not be traced to STARS, we could not ensure payment was made to these providers.
- Variances were noted between STARS and KCCMS on-system payment batches 1-91 processed during the last half of fiscal year 1998 totaling \$200,011. The net affect in this case was that KCCMS payments exceed the STARS amount.
- We noted adjustments made within STARS that were not recorded within KCCMS. These adjustments had reduced STARS payments by \$179,578. This caused KCCMS to be overstated by that amount since it did not reflect these payment adjustments.
- The primary reasons for these problems appear to be due to personnel changes, the lack of direction by CFC management, and the failure to develop and implement formalized. One of the five service agents with which the Commonwealth contracts to oversee and process child care provider reimbursement requests (Community Coordinated Child Care (4Cs)) was approved to issue provider payment checks from their system to pay applicable providers. CFC must extract this information from the KCCMS – STARS interface file in order to pay 4Cs in a lump-sum check. This special process began in May of 1998. However, it was not until February 1999 that formal procedures were implemented to ensure payments to 4Cs were reconciled with extracted KCCMS data. Our review revealed that from May 15, 1998 through

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-24: The Cabinet For Families And Children Should Implement Adequate Procedures To Ensure The Accuracy And Completeness Of KCCMS Generated Interface Files And Check Tape (Continued)**

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closeout of the fiscal year ended June 30, 1998, a variance of \$38,783 developed between recorded KCCMS and STARS data related to 4Cs payments. In this case, the total payments per KCCMS exceeded STARS. This amount is included in the variance noted in the second bullet noted above.

- We noted several instances where batch numbers had been deleted within KCCMS. For the last six months of fiscal year 1998, those transactions totaled \$150,444. We were able to match the majority of those dollars to actual documents within STARS. However, approximately \$13,768 could not be matched with processed STARS transactions. This amount is included in the total for the second bullet noted above.

In summary, our audit revealed that payment totals within KCCMS exceed STARS totals by \$379,589. This is approximately 1.6% of the total on-system payments processed during that time period. Additionally, some critical fields within KCCMS were blank.

The primary reasons for these problems appear to be due to personnel changes, the lack of direction by CFC management, and the failure to develop and implement formalized procedures requiring the Division of Child Care (DCC) and the CFC-Office of Technology Services (OTS) personnel to monitor processing and output control totals for accuracy and completeness.

Failure to establish proper controls for ensuring the accuracy and completeness for data processing and output can result in incomplete or inaccurate system information and could affect any related payments.

**Recommendation**

We recommend formal policies and procedures be developed for OTS and DCC to ensure that the STARS generated interface file is accurate and complete according to KCCMS data. We further recommend that control procedures be developed and implemented to ensure that information recorded within STARS corresponds to the processed STARS interface file data, and that critical fields within KCCMS are complete. We realize that the new Commonwealth Management and Reporting System may alleviate the STARS interface concerns since a check writer system will be utilized for KCCMS related payments. However, this will still entail the creation of a check tape, which should be controlled just as the STARS interface file generation should be controlled. Finally, we recommend CFC management reevaluate the necessity of letting 4Cs process their provider's checks independently.



COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)

**FINDING 98-CFC-24: The Cabinet For Families And Children Should Implement Adequate Procedures To Ensure The Accuracy And Completeness Of KCCMS Generated Interface Files And Check Tape (Continued)**

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**Management's Response and Corrective Action Plan**

*CFC has focused on developing a procedure process of KCCMS payments to ensure consistent detailed accuracy. Note the following implementations:*

- *Beginning February 99, a KCCMS payment procedure manual was developed and utilized. This entailed changing the process with 4C's. 4C's must reconcile with the extracted KCCMS data prior to issuance of payment to 4C's. This action resulted in the elimination of overage and shortage of payments to 4C's.*
- *Initiated an active working relationship with CFC Accounting Branch by providing a detailed weekly journal voucher. KCCMS and MARS payment totals will be reconciled by establishing a summary spreadsheet to document the variances between MARS's payment adjustments and KCCMS system total for each payment run.*
- *Created a weekly payment log, used to track payments to 4C's. This documented the adjustments with refund received from 4C's. This further validates the change to reconciliation prior to issuance of payment to 4C's resulted in balanced expenditures and encumbrances.*
- *Re-developed the filing system of weekly KCCMS payment records. Weekly file to contain hardcopy of stars interface register, KCCMS - 4C's system printout, detailed summary sheets of 4C's with faxed request of payment amount from 4C's and MARS check writer system payments, MARS generated payment reports, and all e-mails to/from Finance & Treasury in reference to that weeks payment run.*
- *Current planning of relocation of Division of ChildCare, a central filing area will be established for KCCMS files.*
- *With MARS implemented, Cross-training is scheduled for the designated back up to the primary for KCCMS/MARS payments. As noted above, the payment procedure manual is used step by step too insure consistency and accuracy.*

*Re-evaluation of 4C's contract scheduled, with decision to amend based on the evaluation of current 4C's payment process to current MARS payment process. This evaluation will be the determining factor to insure consistency and accuracy of payment process.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-25: The Division Of Child Care Should Continue To Monitor, Upgrade, And Test All Systems To Ensure Accurate Processing In The Year 2000**

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State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.575 – Child Care and Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

The Division of Child Care within CFC has not completed all necessary modifications for KCCMS to be Year 2000 compliant. The AIX/UNIX operating system, Oracle applications, and SQL Net components of that system are not yet compliant.

Following the period under review, the application software for the KCCMS was certified as compliant. However, only after all KCCMS components are Year 2000 compliant will these applications be capable of functioning. The applications must process on a viable system in order to operate.

Consistent with the report Year 2000 Tools and Methodologies Review performed by Keane, Inc. dated, December 18, 1999, CFC has coordinated Year 2000 efforts to include all its agencies and documented the success of those efforts on a monthly basis. Monthly reports provide project status and indicate that all agencies continue to complete work in the categories of documentation, management and reporting, technical readiness, business contingency, inventory, and business suppliers and providers.

The components that are currently non-compliant are significant to the KCCMS processing environment and will require upgrades. The Year 2000 Project Manager has identified all pertinent tasks and prepared a timeline for tracking them through completion by the date of September 30, 1999. Discussions reveal that the Office of Technical Services made arrangements with the respective vendors to upgrade the operating system and application software.

**Recommendation**

We recommend the Division of Child Care continue with the necessary steps to ensure KCCMS and applicable programs are Year 2000 compliant. We recommend that any necessary modifications and/or replacements be accomplished no later than July 31, 1999, so modifications to the system can be properly documented and tested for accuracy.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-25: The Division Of Child Care Should Continue To Monitor, Upgrade, And Test All Systems To Ensure Accurate Processing In The Year 2000 (Continued)**

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**Management's Response and Corrective Action Plan**

*A vendor proposal has been accepted and implementation has begun for conversion of the KCCMS related software including the operating system to Y2K compliant products. In addition, the vendor is assisting DIS in migrating the application to the IBM SP Processor which is Y2K compliant. This work is scheduled to be complete by 10/31/99.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-26: The Division Of Child Care Should Consistently Follow Logical Security Procedures For The Kentucky Child Care Management System**

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.575 – Child Care and Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

DCC did not provide adequate security for KCCMS. Formal security authorization procedures were in place directing the establishment, modification or revocation of system access to KCCMS. However, these procedures were not consistently followed during the fiscal year. Our review revealed the following exceptions:

- Users were granted clearance to KCCMS application programs, data files, and the operating system. The System Administrator would accept phone calls and e-mails from employee supervisors as a means for requesting employee system access. Documentation was not adequate to provide sufficient evidence of the requests and/or subsequent access level changes granted to users.
- Users did not consistently complete a Security Action Request and Employee Confidentiality/Security Agreement.
- The KCCMS system does not force users to change passwords on a periodic basis, nor are users locked out for invalid login attempts or inactivity.

Consistent application of formalized security policies provides continuity for policy implementation and sets the tone of management concern for strong system security. They provide a security framework used to educate management and users of their security responsibilities. Further, the propriety of system access levels granted cannot be ensured without properly documented and approved access requests. Levels of system access granted to users should be restricted to areas necessary for the employee to perform assigned job duties.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-26: The Division Of Child Care Should Consistently Follow Logical Security Procedures For The Kentucky Child Care Management System (Continued)**

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**Recommendation**

We recommend the Division of Child Care take the following steps to improve the logical access security function:

- The Security Action Request form should be updated to include fields that denote specific systems for which access is being requested. This is necessary for the System Administrator to ensure access granted for each user is correct.
- The Security Administrator should make certain that all request forms are completed and approved to ensure proper access level and accurate service agency role.
- The Security Administrator should request Security Action Request forms for all employees who currently have access to KCCMS and do not have a completed form on file.
- All system users should read and acknowledge by signing the Employee Confidentiality/Security Agreement. The Security Administrator should retain these forms.
- The Security Administrator should retain all Security Action Request and Employee Confidentiality/Security Agreement forms to support authorization of user access. These forms should be retained for audit purposes as long as the requested access remains in effect.
- The System Administrator should implement password change controls that forces all users to change their password on a periodic basis. The Security Administrator should implement a lockout feature that would revoke user access after three (3) unsuccessful attempts.

**Management's Response and Corrective Action Plan**

*All user request for access to KCCMS will require a signed request from the Service Agents. No new access will be granted without this form being completed and sent to the systems administrator. This form will also be updated to include the level of access being requested. In addition to the request forms, a signed confidentiality/security agreement must be on file before access will be granted.*

*The Office of Technology Services is in the process of revising the current Security Action Request form to include the type of access user is requesting.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-26: The Division Of Child Care Should Consistently Follow Logical Security Procedures For The Kentucky Child Care Management System (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*Also, the state confidentiality/security form is being revised to reflect the requirements of the KCCMS contract staff. These actions are to be completed by September 30, 1999. With this action, all staff will have current security action forms and confidentiality/security forms on file with the KCCMS systems administrator.*

*User password change control will be altered with the migration of the KCCMS as described in the Y2K response. This will require network logon procedures as opposed to logging into the KCCMS application through the AIX/Unix operating system. Current network access is denied after three failed attempts and requires a network administrator intervention. This will remedy the unlimited attempts users now have.*

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-27: The Division Of Child Care Should Complete The Development Of A Formal Disaster Recovery Plan**

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State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.575 – Child Care and Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

During the audit period under review, the Division of Child Care did not have a formal Disaster Recovery Plan in effect. There was an effort made to develop a Disaster Recovery Plan. However, the plan is currently incomplete.

The Disaster Recovery plan was lacking information in several areas, including:

- Identification of critical data.
- Steps for the regeneration of application and system files.
- Updated agreements with DIS.
- Training employees on the recovery plan.
- Testing of the recovery plan.
- Identification of critical offsite locations.
- Detailed plan for backup and recovery procedures for hardware housed in the computer center.

Not having a complete business recovery plan increased the possibility of loss due to excessive recovery time and costs, and disruption of KCCMS processing capabilities. During the fiscal year, there were \$23,456,000 of payments processed through KCCMS.

Good management practices minimize risks through planning. The goal of a business recovery plan is to improve preparedness and recover normal operations at minimal cost using available resources.

**Recommendation**

We recommend that the current Disaster Recovery Plan be further developed. The finalized plan should include:

- Identification of critical data.
- Steps for the regeneration of application and system files.
- Updated agreements with DIS.
- Training of emergency personnel on the recovery plan.
- Testing of the recovery plan.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-27: The Division Of Child Care Should Complete The Development Of A Formal Disaster Recovery Plan (Continued)**

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- Expanded backup or manual procedures to be followed for business continuity in the case of extended disruption and/or the inability to use the CHR building.
- Identification of critical offsite locations.
- Detailed plan for backup and recovery procedures for hardware housed in the computer center

In addition, we recommend that the Disaster Recovery Plan be distributed to all emergency personnel and updated periodically to include any new applications or systems.

**Management's Response and Corrective Action Plan**

*Each payment run allows the Division of Child Care to capture/identify an updated listing of critical data for providers. This includes their vendor name, vendor I.D. and address. Additionally, DIS is working on a report which would pull all provider information such as provider/vendor I.D., phone numbers, address, type of provider tax information and list of children served. This would be a crystal report that would be run in hard copy form at least monthly. The Division has also requested a crystal report that would list active clients, eligibility, eligibility dates, children, age, provider the child is attached to, rates and parental co-pay. This is also critical data for payments and part of disaster recovery process.*

*If the KCCMS system is down and then recovers, the Service Agents would enter data from existing hardcopies. This allows for regeneration of the files. It is the understanding of Division of Child Care, that updated agreements with DIS are negotiated with OTS. Training for employees on the recovery plan is scheduled for October and November. The Division staff authored the plan and reviewed it with the KCCMS team during standing weekly meetings, as well as during a meeting with the Service Agents.*

*The critical offsite locations identified in the contingency plan were the DIS office and Service Agents' offices. Each of these entities have developed their Disaster Recovery plan and submitted them to the Division of Child Care to coordinate a response that enables functioning to continue. Since OTS and DIS maintain the hardware, and DIS completes the back up, plans for recovery for these agencies should be housed therein.*

*The Division of Child Care has submitted its contingency plan and is awaiting approval.*



**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-27: The Division Of Child Care Should Complete The  
Development Of A Formal Disaster Recovery Plan (Continued)**

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**Auditor's Response**

The CFC management response and corrective action plan for the Division of Child Care did not adequately address the problems or concerns presented in the comment for Disaster Recovery. We acknowledge the effort to compile the initial draft for the Disaster Recovery Plan. However, an adequate business contingency plan will need specific points accentuated:

- Document all steps necessary to regenerate application and system files to include the detail plan for backup and recovery procedures for business continuity during an extended disaster.
- Update, formalize, and distribute the Disaster Recovery Plan to all system employees.
- Identify key employees and schedule frequent testing dates to determine the success of a recovery during a simulated disaster.

The Division should identify one or more individuals to direct the business contingency effort and maintain the document with current information. Additionally, the Disaster Recovery Plan should be included in all efforts of new employee orientation.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CHS-28: Subrecipient Monitoring Procedures At The Department  
For Public Health Should Be Improved**

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State Agency: Cabinet for Health Services

Federal Program: CFDA 93.994 - Maternal and Child Health Services Block Grant to the  
States

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$ 0

We noted a weakness in the internal controls, which the Department for Public Health had established to ensure audit compliance with OMB Circular A-133 by the local health departments. No desk reviews were performed on the local health departments' single audits submitted to the Department. The Desk Review Guide for Single Audits should have been used to perform a review on each audit. During our testing in March 1999, agency personnel indicated that no desk reviews had been performed on the local health departments for FY 98, as the time necessary to perform the reviews was taken by other projects.

Timely management decisions on audit resolution and monitoring of findings requires audit reports of the local health departments be reviewed in accordance with OMB Circular A-133. Previous year's audit response to this comment indicated that "the Department for Public Health requires a final audit report within 120 days of year end with final closing by six months after year end." Without a completed desk review prior to six months after year end, there is no assurance that the audits are properly prepared and reconciled to agency records or that findings are resolved within the required six month timeframe. There is no mechanism for insuring an adequate audit has been performed in a timely fashion.

Subpart D.400d (4) and (5) of OMB Circular A-133 requires the pass-through entity to:

- Ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

**COMMONWEALTH OF KENTUCKY  
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FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CHS-28: Subrecipient Monitoring Procedures At The Department  
For Public Health Should Be Improved (Continued)**

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**Recommendation**

We recommend the Department for Public Health review all local health department audit reports in accordance with the "Desk Review Guide for Single Audit Reports" to ensure all applicable audit requirements are met, corrective action is taken when necessary, and reviews of audit reports are performed timely and well documented.

**Management's Response and Corrective Action Plan**

*The Department of Public Health has always and will continue to review local health department audits. This review has been performed for all prior years, and will be performed using the "Desk Review Guide for Single Audit Reports" by the accountant or accountants who are responsible for the local health departments for FY 1998. At the time of the APA audit, the review had not been performed for FY 1998 audits due to an internal reorganization of the local Fiscal Management Section in which duties and responsibilities of staff have been shifted. We agree whole-heartedly that audit resolution should be done in a timely manner and will endeavor to complete future desk reviews in a more timely manner.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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(CONTINUED)**

**FINDING 98-CHS-29: The Department Of Public Health Should Develop Written Policies And Procedures For Significant Areas Of The Immunization Program**

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State Agency: Cabinet for Health Services

Federal Program: CFDA 93.268 - Childhood Immunization Grants

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$ 0

Various policies and procedures involved in the administration of the Immunization Program (Program) were not compiled into a written policies and procedures manual. Several significant areas of the Program, such as vaccine inventory maintenance, vaccine ordering, and distribution of Federal grant administrative funds to local health departments, were dependent upon the experience of certain employees.

Even though physical vaccine inventory levels were used to order additional vaccines, there did not appear to be a formal policy requiring how the vaccine inventory should be maintained. Program employees could not determine how or why specific amounts from the Federal grant were allocated to the health departments. The Director for the Division of Epidemiology and Health Planning maintained a private system of allocating Federal administrative funds to local health centers that was not contained in a written policy. Employee turnover could leave the program unable to complete these processes, resulting in possible cessation of the program.

Good internal control over the Immunization Program requires that the processes involved with the management of the program be consistent. This consistency can only be obtained through a written policy and procedures manual.

**Recommendation**

We recommend the Immunization Program compile a policy and procedures manual that encompasses all aspects of the management of the Immunization Program. Such a manual will transcend an employee's specific knowledge of the various program processes and ensure consistent program operations.

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)

**FINDING 98-CHS-29: The Department Of Public Health Should Develop Written Policies And Procedures For Significant Areas Of The Immunization Program (Continued)**

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**Management's Response and Corrective Action Plan**

*The Immunization Program began using VACMAN to order vaccines in January 1994, but the Program did not start using VACMAN to maintain a perpetual inventory until July 6, 1998. Prior to July 6, 1998, the inventory on hand balances on VACMAN included only vaccine shipments that had been received by the Vaccine Depot. The VACMAN inventory on hand did not reflect orders shipped from the Depot. On July 6, 1998 the Immunization Program began to maintain a perpetual inventory on VACMAN. Obviously the successful start up of a perpetual inventory system is dependent upon obtaining an accurate initial physical inventory. If this is done, as was the case in the beginning of the VACMAN perpetual inventory system, or if shipping errors are not discovered, discrepancies will continue to show up in the system until they are reconciled.*

*Reorder levels are automatically built into the VACMAN system to assist management in determining vaccine needs. However, because of the seasonal variations in the use of some vaccines, the Immunization Program uses these present levels as flags to determine actual needs.*

**CORRECTIVE STEPS THAT HAVE BEEN TAKEN**

*The Immunization Program has attempted to address this problem by:*

- 1. Hiring a Coordinator for the Vaccine for Children (VFC) Program (Gary Bevill 1/1/99) who is responsible for implementing quality assurance activities, including vaccine accountability procedures identified in Federal grant guidelines.*
- 2. Hiring a Supervisor (Glenn Lewis 3/1/99) who is responsible for overseeing the operations of the Vaccine Depot; taking physical inventories; and developing procedures to eliminate shipping errors.*
- 3. Several corrective procedures have been initiated since January 1, 1999. The include:*
  - Printing a daily VACMAN shipping order summary, including type of vaccine, lot numbers, and quantities of each vaccine to be shipped each day. Only the vaccines, lot numbers and the quantities listed on the daily shipping summary are pulled from the walk-in coolers and stocked in the daily picking refrigerator. Containers were purchases to separate individual provider's orders while they are being prepared for shipment to keep the*

COMMONWEALTH OF KENTUCKY  
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**FINDING 98-CHS-29: The Department Of Public Health Should Develop Written Policies And Procedures For Significant Areas Of The Immunization Program (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*orders from being mixed. If an order cannot be completely filled or if there are vaccines left in the picking refrigerator after all of the vaccine orders have been packaged and readied for shipment, then a shipping error has occurred and should be corrected before the orders go out. Mr. Lewis has developed a manual perpetual inventory procedure that is compared to the monthly physical inventory and the VACMAN inventory on hand report.*

- *Developing a standard form to be used in taking a physical inventory.*
- *Requiring that the Supervisor of the Vaccine Depot take a physical inventory each month. The physical inventory is compared to the VACMAN Inventory on Hand report and a Discrepancy Report is prepared by the VFC Coordinator. Attempts are made to resolve discrepancies by recounting stock and reviewing receiving reports. If a discrepancy cannot be resolved after two (2) consecutive physical inventories, then an adjustment is made to VACMAN.*
- *Adjustments cannot be made to VACMAN until all efforts to resolve discrepancies have been made. Except for returned vaccines, adjustments cannot be made to VACMAN without the approval of Gary Bevill, VFC Coordinator, or Sandra Gambescia, Immunization Program Manager.*
- *A Vaccine Depot Vaccine Return Form (see attached green form) has been developed which is to be filled out when vaccines are returned to the Vaccine Depot by a VFC provider. The form must be submitted to the Immunization Program. If vaccines reported of the Vaccine Return Form are returned to stock, the VACMAN inventory is adjusted accordingly by Lorraine Moore, VFC Program Procedures Development Specialist.*

**CORRECTIVE STEPS THAT WILL BE TAKEN**

1. *Gary Bevill, VFC Coordinator will write a policies and procedures manual by October 1, 1999. The manual will include specific requirements related to physical inventories (must be taken on first and third Thursday of each month); reporting receipt of vaccines to inventory; unpacking and reporting returned vaccines making adjustments to VACMAN; and correcting shipping errors including follow-up with providers.*

**COMMONWEALTH OF KENTUCKY  
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**FINDING 98-CHS-29: The Department Of Public Health Should Develop Written Policies And Procedures For Significant Areas Of The Immunization Program (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

2. *Gary Bevill, VFC Coordinator, and Sandra Gambescia, Immunization Program Manager, will develop written criteria and procedures for reordering vaccines and allocating funds to local health departments. This will be accomplished during the second quarter of FY 99-00.*
3. *Out of state travel approval will be requested for Glenn Lewis, Vaccine Depot Supervisor, to visit another vaccine depot during the first quarter of FY 2000, to observe proper storage, handling, and shipping procedures. The site chosen will be one that is recommended by the Centers for Disease Control and Prevention.*
4. *The Immunization Program is currently studying vaccine usage by month for the last twelve (12) months for each vaccine. Written reorder levels will be established based on past usage. The reorder levels will be utilized unless a disease outbreak or unforeseen circumstance, such as changes in the recommended immunization schedule, vaccine spoilage, or disruption in transportation requires different order levels.*

*A system to allocate health funds will be created that is based on population, doses of vaccine administered by the health department, and rate of specific diseases. This system will be written as a formula that can be used annually, and implemented by anyone in the program involved in allocating the Federal funds to the local health departments.*

**COMMONWEALTH OF KENTUCKY  
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(CONTINUED)**

**FINDING 98-KHESLC-30: Loans Submitted On ED Form 799 Should Be Properly Categorized**

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State Agency: Kentucky Higher Education Student Loan Corporation

Federal Program: CFDA 84.032 - Federal Family Education Loans (Federal Special Allowance)

Federal Agency: U.S. Department of Education

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: Approximately \$1,000,000

Loans are required to be properly categorized on the ED Form 799 (34 CFR 682.304D). The Kentucky Higher Education Student Loan Corporation (KHESLC) received special allowance payments in excess of the amounts to which it was entitled.

Regulations changed October 1, 1993, but this change did not apply to the KHESLC until December 1996 when the KHESLC issued certain types of bonds. The system was not adjusted for this change.

The questioned costs are limited to those loans coded with special allowance rate codes of "XE," "XG," and "XH." These loans should have been coded with special allowance rate codes of "SE," "SG," or "SH."

**Recommendation**

The KHESLC should strengthen its system for monitoring the effect of all regulations on new transaction types so as to ensure timely and appropriate systems modifications.

**Management's Response and Corrective Action Plan**

*Management concurs with the finding and will make a prior period adjustment on the December 31, 1998, ED Form 799. Management found this problem as a result of its own internal monitoring controls.*



**COMMONWEALTH OF KENTUCKY  
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**FINDING 98-MA-31: The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients**

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State Agency: Department of Military Affairs  
Federal Program: CFDA 83.544 – Public Assistance Grants  
Federal Agency: Federal Emergency Management Agency  
Pass-Through Agency: Not Applicable  
Compliance Area: Subrecipient Monitoring  
Amount of Questioned Costs: None

The FY 97 audit for the Department of Military Affairs contained a reportable condition relating to the monitoring of subrecipients. The prior year audit noted in its findings that the agency could not consistently identify subrecipients, that the subrecipient tracking system was inadequate, and that required audit reports were not received in a timely manner. In its response to the finding, the agency indicated procedures to strengthen controls over subrecipient monitoring would be implemented.

However, during our testing for the FY 98 audit, we found that the deficiencies with the monitoring system had not been corrected. Specifically, we noted the following:

- Although the agency has implemented a tracking system for required audit reports, this listing still does not include the date the audit reports are due and the date findings and questioned costs (if any are noted) are resolved by the agency. Thus, the agency does not take appropriate action on those subrecipients who submit reports late or provide evidence that findings or questioned costs are resolved within six months of receipt of the report.
- As of June 15, 1999, only five of six required audits had been received. None of the five contained a “Desk Review Guide” as evidence the audit report had been reviewed. For the 6 items tested, 2 were not received within 13 months after the end of the fiscal year. As a result, audit reports are not being reviewed in a timely manner.

Therefore, we conclude that the Summary Schedule of Prior Audit Findings, submitted for the fiscal year ended June 30, 1997, for the Department of Military Affairs has been materially misrepresented.

Because the majority of money received under CFDA # 83.544 - Public Assistance, flows through to subrecipients, it is imperative that monitoring of these subrecipients be done to ensure that Federal moneys are expended in accordance with applicable laws and regulations and within the terms of the grant agreements. Under the requirements of the Single Audit Act and OMB Circular A-133 when in a single fiscal year, a recipient of Federal financial assistance passes \$300,000 or more of such assistance in a single

**COMMONWEALTH OF KENTUCKY  
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**FINDING 98-MA-31: The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients (Continued)**

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subgrant through to one or more subrecipients, the primary recipient is responsible for determining whether the subrecipient expends that assistance in accordance with applicable laws and regulations. Furthermore, OMB Circular A-133 provides that, in such instances, the primary recipient should:

- a. Determine whether state or local subrecipients have met the applicable Federal audit requirements.
- b. Determine whether the subrecipient has controls in place to ensure that Federal financial assistance is being expended in accordance with applicable laws and regulations.
- c. Ensure that appropriate corrective action is taken within six months after receipt of a subrecipient's Auditor's report that identifies reported instances of noncompliance with Federal Laws and Regulations.

According to the State's Administrative Plan for the Public Assistance Program:

- The Governor's Authorized Representative (GAR) assures that the grantee and subgrantees perform audits in accordance with the Single Audit Act on a timely basis.
- The GAR reviews audits performed on the grantee and subgrantees by completing the "Uniform Desk Review Guide for Single Audits" or the "Desk Review Guide for Program Audits." If adverse findings affecting disaster payments are reported, the GAR assures that appropriate action is taken and reports that action to FEMA.

**Recommendation**

We recommend the agency modify its tracking system for audit reports to include the following information:

- the date audit report is due
- the date audit report is received
- the date audit report is accepted by the agency
- the date any findings and questioned costs are resolved
- documentation of correspondence with subrecipients regarding findings and questioned costs

**COMMONWEALTH OF KENTUCKY  
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(CONTINUED)**

**FINDING 98-MA-31: The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients (Continued)**

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This type of tracking system should allow the agency to be aware of which subrecipients have not submitted audit reports, when audit reports are not received on time, whether follow up is necessary related to non-compliance issues and ensure that such issues are resolved within six months of receiving the audit report.

The agency is again in noncompliance with the monitoring requirement of the Single Audit Act and the Administrative Plan for the Public Assistance Program. We recommend all required subrecipient audit reports be reviewed in accordance with either the “Desk Review Guide for Single Audit Reports” or the “Desk Review Guide for Program Audits” and that documentation of such reviews be maintained. In addition, we recommend the agency perform these reviews in a timely manner.

**Management’s Response and Corrective Action Plan**

*The PA Section has implemented a tracking system for required grant recipients expending \$300,000 or more in Federal funds in a fiscal year. The audit tracking report includes the following:*

- *Date each audit is due*
- *Date audit is received from the applicant*
- *Date audit report is accepted by this agency*
- *Date of any findings*
- *Date questioned costs are resolved*

*All audits will be reviewed and maintained using either the “Desk Review Guide for Single Audit Reports” or the “Desk Review Guide for Program Audit.”*

*Audits requiring follow-up compliance issues will be resolved within six months of receiving the audit report along with appropriate action on grant recipients with questioned cost or late submissions.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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(CONTINUED)**

**FINDING 98-NREPC-32: The Natural Resources And Environmental Protection Cabinet Should Improve Its Controls Over Preparation Of The Schedule Of Expenditures Of Federal Awards**

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State Agency: Natural Resources and Environmental Protection Cabinet

Federal Program: Various

Federal Agency: Various

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

The Finance Branch, within the Natural Resources and Environmental Protection Cabinet (NREPC), did not submit the Schedule of Expenditures of Federal Awards (SEFA) and accompanying notes and Schedule of Subrecipients, to the Auditor of Public Accounts (APA) by the December 1, 1998, due date. An incomplete SEFA was not submitted to the APA until after the date of the NREPC Entrance Conference on May 17, 1999. The omitted notes and schedules were submitted piecemeal over the next six weeks. In addition to being delinquent, the SEFA had not been reviewed by agency supervisors prior to submission. Additionally, the Finance Branch did not reconcile the Abandoned Mine Lands, Surface Mining Reclamation, and Cooperative Forestry Assistance programs with appropriate STARS records as of June 30, 1998.

According to APA's published Preparation Instructions for the SEFA, the deadline for submitting the FY 98 SEFA was December 1, 1998. The date was established and communicated to NREPC in advance to enable the APA to complete the Statewide Single Audit of Kentucky by the federally mandated deadline of July 31, 1999. This type of noncompliance reduces the reliability of the NREPC's Federal Schedule, and to a lesser degree, the State's schedule, along with the ability to complete the audit in a timely manner.

According to the Instructions for FFA2 – Schedule of Cash Programs, Step 2 state:

Information contained in the schedule should be reconciled to the Statewide Accounting and Reporting System (STARS), with documentation of the reconciliation retained. This will ensure that the schedule, although based on agency records both manual and automated, will agree to the official accounting records of the Commonwealth of Kentucky, which will have been agreed to the Commonwealth's general-purpose financial statements.

This reconciliation should encompass both receipts and expenditures, and should be done on a grant-by-grant basis, if possible.

**COMMONWEALTH OF KENTUCKY  
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(CONTINUED)**

**FINDING 98-NREPC-32: The Natural Resources And Environmental Protection Cabinet Should Improve Its Controls Over Preparation Of The Schedule Of Expenditures Of Federal Awards (Continued)**

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If the agency chooses to maintain grant accounting records on an accounting package other than the grant accounting package provided in STARS, the agency must reconcile those records to STARS. The Cabinet uses a grant accounting package other than STARS and performs monthly reconciliations; however, the reconciliations are not made to STARS for Federal schedule preparation.

**Recommendation**

We recommend the Cabinet's Finance Branch submit the completed and reviewed Schedule of Expenditures and Federal Awards to the Auditor of Public Accounts by the deadline published in the APA Preparation Instructions for the Schedule of Expenditures and Federal Awards. We also recommend the Finance Branch prepare a comprehensive reconciliation of their accounting records for all Federal programs with appropriate STARS records as part of the preparation of the Schedule of Expenditures of Federal Awards.

**Management's Response and Corrective Action Plan**

*NREPC will submit the report timely in the future. Each grant was reconciled to STARS records, only the compilation of these reconciliations was not completed.*

**COMMONWEALTH OF KENTUCKY  
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(CONTINUED)**

**FINDING 98-TC-33: The Transportation Cabinet Should Reimburse The Federal Government For Relocation Assistance Payments That Were Incorrectly Billed**

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State Agency: Transportation Cabinet

Federal Program: CFDA 20.205 – Highway Planning and Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Agency: Not Applicable

Compliance Area: Real Property Acquisition and Relocation Assistance

Amount of Questioned Costs: \$24,000

The Transportation Cabinet's *Relocation Assistance Guidance Manual* (Section 62-04.0630 B "Revisions to Replacement Housing Amount ") requires that the replacement housing payment (which includes the Purchase Supplement) be recomputed if the acquisition price for the land parcel is changed.

Our audit testing of Relocation Assistance revealed an administrative settlement was made that increased the acquisition cost for a parcel of land in Daviess County. Cabinet personnel had informed the homeowner that the administrative settlement would **not** affect the homeowners' Replacement Housing Payment-Purchase Supplement. The homeowner executed a deed of conveyance for the property after being told this.

The Cabinet erred in telling the homeowner the Replacement Housing Payment-Purchase Supplement would not be changed by the administrative settlement. Because of this error, the Relocation Assistance Branch Manager prepared a memorandum to the Director of Right of Way and Utilities to request the entire amount of the Replacement Housing Payment-Purchase Supplement be paid with state funds (no Federal participation in the payment). The Right of Way and Utilities Division Director signed the memorandum to approve this action.

However, the Payment Summary was not annotated to indicate only state funds should be used for the payment. As a result, the Federal government was billed for 80% (the Federal participation rate for this project) of the \$30,000 payment, or \$24,000.

The Federal billing for this Replacement Housing Payment-Purchase Supplement was \$24,000 instead of \$0.

**COMMONWEALTH OF KENTUCKY  
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(CONTINUED)**

**FINDING 98-TC-33: The Transportation Cabinet Should Reimburse The Federal Government For Relocation Assistance Payments That Were Incorrectly Billed (Continued)**

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Section 62-04.0630 B of the *Relocation Assistance Guidance Manual* "Revisions to Replacement Housing Amount" states:

When an adjustment is made in the fair market value offer to the owner occupant (administrative settlement, no appeal from the Commissioners' Award or Jury Award, etc.), the replacement housing payment must be recomputed based on the new acquisition price.

49 CFR 24.601 (b) discusses certification of a State agency and states:

A Federal agency that has accepted a State agency's certification . . . should withhold its approval of any of its Federal financial assistance to any project, program, or activity, in progress or to be undertaken by such State agency, if it is found by the Federal agency that the State agency has failed to comply with the applicable State law and regulations implementing those provisions . . .

**Recommendation**

The Right of Way and Utilities Division should investigate procedures and methods to appropriately flag files and forms for special handling in unusual circumstances such as this.

**Management's Response and Corrective Action Plan**

*The Audit Report accurately reflects a failure to appropriately indicate a Relocation Assistance Payment was to be from State Funds only and was billed to the Federal Highway Administration. The error was duly noted during the audit and had since been corrected with credit given to the Federal project funds.*

*Appropriate notes were made on the parcel files when submitted for payment. However, the project funds were insufficient to request immediate payment. When funds were ultimately added to the project, the note regarding "only state funds" was overlooked and incorrectly billed.*

*Current Policy and Procedures should be adequate to avoid a reoccurrence of this error.*

**COMMONWEALTH OF KENTUCKY  
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(CONTINUED)**

***Material Weaknesses Relating to Internal Control and/or Compliance:***

**FINDING 98-CFC-34: The Cabinet For Families And Children Should Monitor Payment Requests Submitted By Subrecipients To Ensure That Grant Monies Are Spent In Accordance With Contract Provisions**

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State Agency: Cabinet for Families and Children

Federal Program: 93.596,93.575, 93.595-Child Care and Development Fund, Child Care And Development Block Grant

Federal Agency: U.S Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$5,240,535

The Child Care and Development Fund disburses grant monies to child care providers through mini-grant contracts. We tested a sample of mini-grant contracts to determine if the Cabinet for Families and Children monitored them in accordance with A-133 and grant-contract provisions. Based on our testing results, the Cabinet has consistently failed to monitor, audit, and evaluate the reimbursement requests submitted, for expenses incurred, by child care providers to ensure that expenses for which reimbursements are requested are allowable costs under A-133.

The FY 97 audit of the Cabinet for Families and Children disclosed a reportable condition relating to the monitoring of subrecipients. We tested a sample of 40 day care centers and noted that files for 18 centers did not have documentation to support payments, resulting in a known question cost of \$49,214 and a likely questioned cost of \$615,179.

In its response to the finding, the agency indicated that child care providers would be required to submit receipts for each purchase; two additional staff would be assigned to the review process; and, all receipts would be verified against the approved budget to assure that purchases were approved by the contract. However, during our testing for the FY 98 audit, we found that the deficiencies with the monitoring system have not been corrected.

Specifically, during FY 98, we selected a sample of 40 contracts; however, the sample was reduced to 10 due to the large number of exceptions that were found. All of the exceptions were related to the processing and review of mini-grant payments, which are made after a child-care provider requests reimbursement for expenses incurred under the



**COMMONWEALTH OF KENTUCKY  
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**FINDING 98-CFC-34: The Cabinet For Families And Children Should Monitor Payment Requests Submitted By Subrecipients To Ensure That Grant Monies Are Spent In Accordance With Contract Provisions (Continued)**

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contract or agreement. Our testing revealed the following problems with the Child Care and Development Fund Mini-Grants

- Supporting documentation for personnel expenses was not present for 6 payments made to 3 subrecipients;
- Supporting documentation for personnel expenses was insufficient and did not support the amounts of 6 payments made to 4 subrecipients;
- Supporting documentation did not agree to award amounts paid for 9 of the 10 sample items;
- Supporting documentation was less than the amount paid to the provider for 15 grant payments;
- Supporting documentation was greater than the amount paid to the provider for 4 grant payments;

Altogether, documentation failed to support a total of \$37,734 of grant payments made to the subrecipients for the 10 items tested. CFC failed to evaluate the reimbursement requests that were submitted to ensure that the payments were allowable costs.

Based on our review, we conclude that the Cabinet has materially misrepresented its corrective action plan.

Cabinet personnel maintain that supporting documentation was not reconciled to the amounts requested for reimbursement due to understaffing and a lack of formalized procedures. Also, Cabinet personnel state that child care providers do not have the education and training to know what types of documentation they are to submit to receive reimbursement.

The lack of proper documentation prevents the Cabinet from determining whether expenses incurred by subrecipients are for allowable costs. The Cabinet's failure to withhold payments to subrecipients, until adequate supporting documentation is received, increases the likelihood that grant monies are expended for unallowable costs.

OMB Circular No. A-133 subpart C. paragraph (b) states that the auditee (CFC) must, "Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs." Both CFDA 93.596:113 and CFDA 93.575:113 state that, "[p]roper grant accounting records must be maintained."

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-34: The Cabinet For Families And Children Should Monitor Payment Requests Submitted By Subrecipients To Ensure That Grant Monies Are Spent In Accordance With Contract Provisions (Continued)**

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Attachment C of the Mini-Grant contract with each child care provider states that "...the Cabinet for Families and Children agrees to perform the following functions: monitor, audit, and evaluate the activities of the Second Party under this agreement and contracts related to it, and keep the Second Party informed of the findings."

**Recommendation**

The Cabinet for Families and Children should:

- deny reimbursement to subrecipients who submit incomplete and inadequate documentation for expenses incurred under the mini-grants; and
- establish specific written policies and procedures as to how CFC personnel should determine whether sub-recipient costs are accurate and allowable. To ensure that proper documentation is submitted to the Agency, these policies and procedures should be provided to the subrecipients; and,
- commit adequate resources to monitoring of sub-recipient's to ensure that payment requests are properly reviewed before payments are made.

**Management's Response and Corrective Action Plan**

*The Cabinet completed Child Care Provider Service Agreements with child care providers whose applications/requests for proposals were accepted and awarded Child Care Development funds. Invoicing (requests for reimbursement) procedures were submitted by the child care providers and included the amount of reimbursement being requested. The agreements included language that made it the responsibility of the child care providers to maintain supporting documentation to substantiate the amount being requested and to furnish said documentation upon request of the Cabinet. The invoice contained a statement certifying that the information contained in the invoice was accurate to the best of the providers' knowledge.*

*The Cabinet concurs that the language used to describe what additional documentation was necessary to accompany the request for reimbursement could be strengthened. The Contracts Management Branch relied heavily on the Division of Child Care and the Child Care Resource and Referral network to provide technical assistance to the child providers. In the future, the Cabinet's Division of Outcome Based Contracts will become further involved in the*

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)

**FINDING 98-CFC-34: The Cabinet For Families And Children Should Monitor Payment Requests Submitted By Subrecipients To Ensure That Grant Monies Are Spent In Accordance With Contract Provisions (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*monitoring of these providers to ensure that accompanying documentation supports the amount of reimbursement being requested.*

*The Contracts Management Branch is requesting that they be provided the names of the ten (10) contracts that were selected for the audit sample in order to contact the providers and request additional, supporting documentation and reconcile the questioned costs. In addition, the Division of Outcome Based Contracts is requesting technical assistance from the Auditor of Public Accounts' Office as to what type of supporting documentation contractors should be advised to produce with their reimbursement requests. The Branch will then work with the Cabinet's program Divisions and providers to ensure compliance for future audits. For example, the Division of Outcome Based Contracts will work more closely in the future with the Cabinet's program Divisions and the child care providers to ensure all parties are aware of allowable expenditures under the CCDF and will advise the providers of what documentation is required when requesting reimbursement of expenses. Providers will be advised, either in writing or by telephone call, when reimbursement is either disallowed and/or deferred for payment and the reasons for the decision. The file of record will be documented accordingly.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-35: The Cabinet For Families And Children Should Adhere To Established System Development Life Cycle Controls For Development And Implementation Of New Systems**

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State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.575 – Child Care and Development Fund

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: \$3,023,137

CFC did not adhere to system development life cycle methodology established by DIS when developing and implementing KCCMS. Failure to comply with this methodology caused numerous payment processing difficulties.

Based upon discussions with CFC and DIS personnel, the Cabinet's intention for this system was to centralize child care payment procedures and to privatize child care eligibility determination and monitoring. CFC would eventually contract with five service brokers to perform child care reimbursement eligibility determination and monitoring tasks. Previously, these tasks had been accomplished by Commonwealth caseworkers located throughout the state.

CFC determined that a system in use by the state of Tennessee could be modified to accomplish the goals established for the Commonwealth. CFC contracted with Claremont Technologies Group, Inc. (Claremont) to modify, enhance, and implement KCCMS for the Commonwealth. The intent of this contract was for Claremont to develop and implement the system and processing responsibilities that would later be assumed by DIS and the CFC Division of Child Care personnel.

System development and modification began in the last half of fiscal year 1997, and senior CFC management fully expected that this system would be implemented in January 1998. A small project team was formed with DIS and CFC Office of Technology Services (OTS) personnel. This project team was assigned the formidable tasks of determining hardware demands, key agency personnel to assign for support, potential contractors and award recommendations, policy and procedures development and processing design. Discussions with task force members and various personnel

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-35: The Cabinet For Families And Children Should Adhere To Established System Development Life Cycle Controls For Development And Implementation Of New Systems (Continued)**

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within CFC and DIS revealed that senior CFC management did not provide adequate direction for the project. When the project team developed a transition plan, CFC senior management rejected it without supplying an alternative plan. Further, inadequate support was provided by the Division of Child Care (DCC), the intended user agency. The project team watched as their key point personnel throughout the state dwindled from 45 to only 11 statewide. Further, DCC management would not assume responsibility for the development of policies and procedures for KCCMS processing. Additional problems ensued once caseworkers realized the new system being brought on would potentially displace them. This was reported to have caused a loss of personnel resulting in failure to get child care provider payments processed during the first six months of fiscal year 1998. Except for minimal representation on the project team, Claremont did not involve DIS or DCC personnel in the system acceptance testing. As of November 1998, the project team has established a complaint tracking mechanism for KCCMS to assist with problem resolution.

Implementation was required beginning January 1998. KCCMS did not run parallel with the existing system, the Day Care Provider System, for any period of time. Numerous problems occurred with the system and its interface with the STARS. DIS assumed processing responsibilities around March 1998. The Claremont contract was eventually terminated in September 1998. Claremont did not receive payment for the full contract amount.

In order to assure that funds are expended only for allowable Federal program costs, effective internal controls must be implemented and consistently followed. Additionally, CFDA 93.596 requires that agencies receiving Federal funds maintain adequate records that should be available for audit purposes.

Numerous problems occurred during the last half of fiscal year 1998 due to inadequate KCCMS testing and the lack of user agency support and responsibility, for example:

- Extremely slow processing was encountered during KCCMS payment calculations because Claremont had failed to remove various unnecessary database tables and related routines within the system that slowed processing.
- The STARS interface process faltered due to problems with vendor number compatibility and other issues not adequately considered or tested during development. This resulted in hundreds of payments being rejected and delayed unnecessarily.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-35: The Cabinet For Families And Children Should Adhere To Established System Development Life Cycle Controls For Development And Implementation Of New Systems (Continued)**

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- The failure to maintain adequate staff to perform child care reimbursement eligibility determinations and payment processing during the first half of fiscal year 1998 resulted in a backlog of unpaid reimbursement requests as of January 1998. Since the old system did not run parallel to KCCMS, and payment information concerning the first half of FY 98 was not included in KCCMS, normal payment processing and support was unavailable for these reimbursement requests. The CFC Secretary approved manual or "off-system" payments for these requests that often provided no support for the assisted families. Further, no formal procedures were developed concerning required documentation and the payment procedures to be followed to issue these manual payments. As a result, our review revealed that no one within Child Care maintained a verifiable record of all manual payments. Our recalculations revealed that KCCMS-related manual payments for fiscal year 1998 totaled \$3,093, 571.
- The manual payments noted above were not included within KCCMS payment totals. Therefore, any FY 98 expenditure summaries drawn from KCCMS are incomplete. Furthermore, these payments were processed without provider/vendor information within STARS. Therefore, detailed vendor payment information is not available from either KCCMS or STARS.
- All manual payments were processed through STARS with a \*\*Daycare vendor number which made these payments unavailable to the STARS Vendor Offset System. That system intercepts payments to any providers that owe the Commonwealth money.
- System detail was unavailable for the manual payments in either KCCMS or STARS. Therefore, we could not determine the extent of payment duplications that might have occurred due to the extensive use of manual payments. The agency had received returned checks and refunds from providers as a result of duplicate payments they received. However, without adequate manual payment detail, we could not determine if duplicate payments were the result of inaccurate manual payment processing or STARS interface problems.

Failure to adequately involve user agencies with system development, testing, and implementation can result in systems that process in either an inefficient, incomplete, or untimely manner. The manual payment process utilized as it was during fiscal year ended June 30, 1998, could result in unsupported or duplicated payments. These payments would not be allowable costs for the Federal program. We were not able to audit these expenditures due to the lack of proper documentation of these payments. Due

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-35: The Cabinet For Families And Children Should Adhere To Established System Development Life Cycle Controls For Development And Implementation Of New Systems (Continued)**

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to inadequate support for these payments, we are questioning the Federal program expenditure portion of these manual payments processed during the last half of FY 98 totaling \$3,023,137.

**Recommendation**

We recommend CFC strictly adhere to DIS established system development life cycle procedures for future system implementation projects. The CFC Secretary should provide the directives necessary to ensure DCC take responsibility for KCCMS and related payment processing. This includes assurance that adequate policies and procedures are developed surrounding both the service agent level processes and central level processes. This responsibility should not fall solely on the Office of Technology Services or the KCCMS project team. Policies and procedures should include strict limitations on the issuance of manual payments, and adequate support documentation should be obtained and maintained for those payments. Furthermore, adequate procedures should be implemented to monitor the completeness and accuracy of the KCCMS database and the related STARS transactions. Our review revealed that as of February 1999, some of these procedures and controls have been put into place due to efforts of new employees assigned to those areas. CFC senior management should ensure adequate direction is provided in this area. Adequate measures should be taken to ensure users of any KCCMS fiscal year 1998 payment related reports realize those figures do not include manual payments.

We further recommend DCC obtain detailed support for the total manual payment amount of \$3,093,570 processed during the last half of fiscal year 1998 and review for propriety. This detail support should also be compared to KCCMS "on-system" payment information to determine the extent of any duplicate payments. Any duplicate payments discovered should be recouped and refunded to the proper Federal agency. The same procedure should occur for any provider payments that were made through the manual payment process which are determined to be invalid or unsupported.

**Management's Response and Corrective Action Plan**

*Since the implementation of KCCMS the Division of Child Care has been involved a varying levels with the development and modification of the system. Currently, there is a team, consisting of DIS, OTS, Child Care and Office of Policy Development personnel. This team meets weekly to update how the system is*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-35: The Cabinet For Families And Children Should Adhere To Established System Development Life Cycle Controls For Development And Implementation Of New Systems (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*functioning, problems incurred and solutions. DIS continues to establish system development life cycle procedures that the Division of Child Care has adhered to and communicates to service agents, when applicable.*

*The Division of Child Care makes decisions and develops policy and procedures, with technical assistance from the OTS, DIS and KCCMS project team. Presently, technical support is not located within the Division. However plans are currently underway to locate these positions within the Division of Child Care. This will facilitate the continuity of communication, modification of the system, problem identification and solution.*

*Additionally, it will expedite the Division's ability to accept sole responsibility for KCCMS. It should also be noted that there is now a dedicated finance person housed within the Division whose sole job is to make and track payments. This increases financial accuracy and decreases processing errors.*

**Auditor's Response**

The CFC management response and corrective action plan did not adequately address the problems or concerns presented in this comment. We acknowledge that it appears the CFC Division of Child Care has gained better control of KCCMS processing and that certain procedures were developed during the last six months by new personnel within the division. However, we wish to accentuate specific points:

- The management's response and corrective action plan ignored the finding of a \$3,093,571 questioned cost. By questioning these expenditures, we assert the Federal fund expenditure portion of \$3,023,137 may be subject to recovery by the applicable Federal agency.
- Prior to approximately February 1999, no documented procedures were developed to reconcile provider payments with payment data within KCCMS.
- Formal procedures did not exist to ensure that KCCMS payment data reconciled with STARS data.



**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-35: The Cabinet For Families And Children Should Adhere To Established System Development Life Cycle Controls For Development And Implementation Of New Systems (Continued)**

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**Auditor's Response (Continued)**

- Proper system development life cycle procedures were not implemented for KCCMS. Adequate user acceptance testing procedures were not followed, resulting in the necessity for the manual off-system payments.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-36: The Cabinet For Families And Children Should Improve Accuracy In Billing And Eligibility Determination Functions For The Child Care And Development Fund**

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State Agency: Cabinet for Families and Children

Federal Program: 93.596,93.575, 93.595-Child Care and Development Fund, Child Care And Development Block Grant

Federal Agency: U.S Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs

Amount of Questioned Costs: \$3,322,325

The Child Care and Development Fund (CCDF) subsidizes the child care expenses of low-income families. On January 1<sup>st</sup>, 1998, billing and eligibility determination functions for CCDF were transferred from the Cabinet to five outside service agencies, under contract.

Direct payments of \$22,494,011 to child care providers for state-subsidized babysitting services were made through regular accounting channels during the second half of FY 98, January - June 1998. We tested a sample of 60 provider files and found numerous problems:

- Undocumented billing (i.e., no paper copy of the EAV), in 6 cases;
- Payment for an ineligible family, in 1 case;
- Payment after termination of eligibility, in 1 case;
- Lack of a valid contract with the family for state assistance, in 2 cases;
- Incorrectly calculated parents' income, resulting in incorrect co-payments, in 6 cases;
- Incorrectly calculated parents' co-payments, in 10 cases;
- Failure to deduct a correctly calculated parent's co-payment, in 1 case; and,
- Duplicate payments for the same service, in 2 cases.

We also observed instances where data was incorrectly entered from the billing forms (EAVs) into the system.

A new computer system, KCCMS, was put in place in January, 1998, to handle billings and eligibility determinations for the Child Care and Development Fund. Many payments to providers, particularly during the first three months of the year, were incorrect due to widespread and persistent failures of the new system.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CFC-36: The Cabinet For Families And Children Should Improve Accuracy In Billing And Eligibility Determination Functions For The Child Care And Development Fund (Continued)**

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As a result of the problems noted above, we question the validity of \$16,247 of the total \$110,001 paid to the 60 providers in our sample.

OMB Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Organizations", Compliance Supplement states that, "Costs must be reasonable and necessary for the performance and administration of Federal awards."

CFDA 93.596 and CFDA 93.575, the laws governing CCDF and CCDBG respectively, each states at \_\_\_\_:113 that "[p]roper grant accounting records must be maintained." Lack of an EAV or other billing statement constitutes grounds for questioning costs.

**Recommendation**

We have found evidence of poor planning and mismanagement, but no indication of fraud in the overpayments detailed above. While the Cabinet for Families and Children should consider attempting to recover the overpayments, such efforts may not be cost-effective.

All data entry operations by service agency personnel should be proofread or reentered by a second person, to ensure accuracy of billings. All EAVs should be signed or initialed, and dated, by the person who enters the information and by the person who proofreads it. These two controls would guard against both error and fraud, in this key step in the billing process.

We observed that amounts paid to child care providers agreed with EAVs submitted by them much better, during the last two or three months of the fiscal year. We also noted that Cabinet and service agency personnel worked hard to overcome the new system's disastrous start.

**Management's Response and Corrective Action Plan**

*As of September 1, 1999, all EAVs will be signed or initialed, and dated by the person who enters the information.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CHS-37: The Department Of Public Health Should Strengthen Controls Over The Vaccine Inventory System**

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State Agency: Cabinet for Health Services

Federal Program: CFDA 93.268 - Childhood Immunization Grants

Federal Agency: U. S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$ 0

Accurate vaccine inventory data could not be obtained from the Immunization Program for reporting inventory balances for the note to the Schedule of Expenditures of Federal Awards. Physical inventory counts of vaccines were not taken on a regular basis (same time each month), were inaccurate, and incomplete. The physical counts did not agree or could not be reconciled to the perpetual inventory records kept in the federally supplied vaccine software management system (VACMAN)) or the manual perpetual inventory records kept by Immunization personnel. A brief review of the procedures used to maintain the manual records indicated those records should be reasonably accurate. However, the vaccine inventory maintained in VACMAN, which was phased in starting in January 1998, was questionable.

VACMAN did not produce consistent reports when identical requests were made at different times. Vaccine inventory totals that were provided by the agency for the beginning and ending inventory for fiscal year 1998 were not consistent. Two printouts of the July 1, 1997 inventory and two for the June 30, 1998 inventory were provided. The 1997 total inventory value was listed at either \$9,24,847 or \$7,824,005 and for 1998 at \$13,237,104 or \$12,660,524.

The vaccine inventory system also did not report accurate total yearly receipts and did not account for the distribution of vaccines. Printouts containing the amount of inventory received during the audit period, as requested by the auditors on two different days, were different. One total of inventory received was \$7,001,296 and another \$6,157,476. Immunization personnel reported that there were no records kept of the vaccine disbursed during the audit period.

The apparent causes of the inaccurate value and inventory counts of the vaccine inventory's were a lack of: 1) management oversight of the physical counts, 2) management oversight and control of the Vaccine Center by administrators of the Resource Management Branch, and 3) the lack of written policies and procedures governing the vaccine inventory process. We were told the Vaccine Center did not have a supervisor during all or part of our audit period.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CHS-37: The Department Of Public Health Should Strengthen Controls Over The Vaccine Inventory System (Continued)**

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This program has been a small program in the past, with few employees and minimum funding. It has only been since 1996 that the program has expanded with the addition of the Vaccine For Children program. With a small, stable staff working on a small, stable program, the necessity for written policies and procedures received a low priority.

The quantities of specific vaccines maintained in inventory were used as the criteria to order additional stock. Incorrect inventory quantities could cause unnecessary vaccine orders or, for lower than expected levels, the inability to fill provider requests. Furthermore, the inventory system could not produce reliable balances for reporting the beginning and ending inventory, and the total vaccines received and disbursed during our audit period for the required note to the Schedule of Expenditures of Federal Awards.

Good internal control over all phases of the vaccine program, especially the inventory phase, must be maintained to ensure accurate ordering and maintenance of inventory levels. In addition, there are Federal grant requirements for the maintenance of accurate recordkeeping.

**Recommendations**

We recommend the vaccine inventory be properly inventoried on a regular basis by Vaccine Center employees and that Immunization Program personnel supervise these inventories. A regular basis should be defined as the same time of each month until consistency is achieved between the physical counts and VACMAN. Once consistency is achieved, quarterly counts could be initiated, with an end of the year inventory count. APA should observe the year-end physical inventory. We also recommend management of the Immunization Program compare the vaccine inventory levels maintained in VACMAN to regular physical inventory counts. This will assure management that the vaccine inventory computer system is reliable and accurate beginning and ending inventories and the total vaccines received and distributed during the fiscal year will be provided for reporting purposes. Furthermore, we recommend that the Resource Management Branch more closely manage the operations of the Vaccine Center, including on-site supervision and operational practices that will ensure accurate and timely inventory counts.

**Management's Response and Corrective Action Plan**

*The Division of Resource Management, Procurement Branch hired a full-time, on-site supervisor for the Vaccine Center on March 1, 1999. A regularly scheduled physical inventory of the Vaccine Center is conducted every two weeks and the results are reconciled with VACMAN.*

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)

**FINDING 98-CHS-37: The Department Of Public Health Should Strengthen Controls Over The Vaccine Inventory System (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*The Immunization Program began using VACMAN to order vaccines in January 1994, but the Program did not start using VACMAN to maintain a perpetual inventory until July 6, 1998. Prior to July 6, 1998, the inventory on hand balances on VACMAN included only vaccine shipments that had been received by the Vaccine Depot. The VACMAN inventory on hand did not reflect orders shipped from the Depot. On July 6, 1998 the Immunization Program began to maintain a perpetual inventory on VACMAN. Obviously the successful start up of a perpetual inventory system is dependent upon obtaining an accurate initial physical inventory. If this is done, as was the case in the beginning of the VACMAN perpetual inventory system, or if shipping errors are not discovered, discrepancies will continue to show up in the system until they are reconciled.*

*VACMAN is capable of producing numerous reports for the same time period dependent upon the parameters specified. For example, VACMAN can produce a report of inventory on hand including or excluding expired vaccines; including orders entered and not shipped or excluding orders entered and not shipped. Without seeing the reports and knowing the specific time period involved or the parameters of the report, the Immunization Program is not able to address the printouts referenced in IMM-3[This refers to .*

**CORRECTIVE STEPS THAT HAVE BEEN TAKEN**

*The Immunization Program has attempted to address this problem by:*

- 1. Hiring a Coordinator for the Vaccine for Children (VFC) Program (Gary Bevill 1/1/99) who is responsible for implementing quality assurance activities, including vaccine accountability procedures identified in Federal grant guidelines.*
- 2. Hiring a Supervisor (Glenn Lewis 3/1/99) who is responsible for overseeing the operations of the Vaccine Depot; taking physical inventories; and developing procedures to eliminate shipping errors.*
- 3. Several corrective procedures have been initiated since January 1, 1999. The include:*
  - Printing a daily VACMAN shipping order summary, including type of vaccine, lot numbers, and quantities of each vaccine to be shipped each day. Only the vaccines, lot numbers and the quantities listed on the daily shipping summary are pulled from the walk-in coolers and stocked in the daily picking refrigerator. Containers were purchases to separate individual provider's*

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)

**FINDING 98-CHS-37: The Department Of Public Health Should Strengthen Controls Over The Vaccine Inventory System (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*orders while they are being prepared for shipment to keep the orders from being mixed. If an order cannot be completely filled or if there are vaccines left in the picking refrigerator after all of the vaccine orders have been packaged and readied for shipment, then a shipping error has occurred and should be corrected before the orders go out. Mr. Lewis has developed a manual perpetual inventory procedure that is compared to the monthly physical inventory and the VACMAN inventory on hand report.*

- *Developing a standard form to be used in taking a physical inventory.*
- *Requiring that the Supervisor of the Vaccine Depot take a physical inventory each month. The physical inventory is compared to the VACMAN Inventory on Hand report and a Discrepancy Report is prepared by the VFC Coordinator. Attempts are made to resolve discrepancies by recounting stock and reviewing receiving reports. If a discrepancy cannot be resolved after two (2) consecutive physical inventories, then an adjustment is made to VACMAN.*
- *Adjustments cannot be made to VACMAN until all efforts to resolve discrepancies have been made. Except for returned vaccines, adjustments cannot be made to VACMAN without the approval of Gary Bevill, VFC Coordinator, or Sandra Gambescia, Immunization Program Manager.*
- *A Vaccine Depot Vaccine Return Form (see attached green form) has been developed which is to be filled out when vaccines are returned to the Vaccine Depot by a VFC provider. The form must be submitted to the Immunization Program. If vaccines reported of the Vaccine Return Form are returned to stock, the VACMAN inventory is adjusted accordingly by Lorraine Moore, VFC Program Procedures Development Specialist.*

**CORRECTIVE STEPS THAT WILL BE TAKEN**

1. *Gary Bevill, VFC Coordinator will write a policies and procedures manual by October 1, 1999. The manual will include specific requirements related to physical inventories (must be taken on first and third Thursday of each month); reporting receipt of vaccines to inventory; unpacking and reporting returned vaccines making adjustments to VACMAN; and correcting shipping errors including follow-up with providers.*

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

**FINDING 98-CHS-37: The Department Of Public Health Should Strengthen  
Controls Over The Vaccine Inventory System (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

2. *Out of state travel approval will be requested for Glenn Lewis, Vaccine Depot Supervisor, to visit another vaccine depot during the first quarter of FY 2000, to observe proper storage, handling, and shipping procedures. The site chosen will be one that is recommended by the Centers for Disease Control and Prevention.*



**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions</u></b>					
<i>(1) Audit Findings that have been fully corrected:</i>					
FY 97	97-CFC-28	The Cabinet For Families And Children Should Improve Audit Tracking And Review Procedures In Relation To The Low-Income Home Energy Assistance Program	93.568	0	Based on discussions with a representative of the Inspector General's Office and our review of CFC's corrective action plan we believe that the necessary actions have been implemented to strengthen this weakness.
FY 97	97-CFC-29	The Cabinet For Families And Children Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program	93.568	0	Our audit showed that this comment was resolved for FY 98.
FY 97	97-CFC-30	The Department For Social Insurance Should Improve Controls Over Subrecipient Monitoring Within The Job Opportunity And Basic Skills Program Of Temporary Assistance For Needy Families	93.558	0	Our audit showed this comment was resolved for FY 98.
FY 97	97-CFC-32	The Department For Social Services Should Improve Its Audit Tracking And Review System	93.575	0	Our audit showed this comment was resolved for FY 98.
FY 97	97-CFC-37	The Cabinet For Families And Children Should Develop Procedures To Ensure Vendors Providing Services To Federal Programs Are Not Debarred Or Suspended By The Federal Government	N/A	0	Our audit showed this comment was resolved for FY 98.
FY 97	97-CFC-38	The Department For Social Services Should Improve Its Audit Tracking And Review System	93.667	0	Our audit showed this comment was resolved for the year ended June 30, 1998.
FY 97	97-CFC-39	The Department For Social Services Should Ensure That Monitoring Of Day Treatment And Chapter 1 Programs Is Performed	93.667	0	Our audit showed this comment was resolved for FY 98.

**COMMONWEALTH OF KENTUCKY**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 1998**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions (Continued)</u></b>					
<i>(1) Audit Findings that have been fully corrected (Continued):</i>					
FY 97	97-CHS-1	The Cabinet For Health Services Should Strengthen Controls Over Estimation Of Contingent Liabilities	N/A	0	The agency has improved their procedures to calculate estimates of loss and estimates of probability of loss for contingencies.
FY 97	97-CHS-45	The Department For Medicaid Services Should Improve Controls Over The Accounts Receivable Function	N/A	0	Controls over the Account Receivable Function have been improved.
FY 96	97-FAC-3	The Finance And Administration Cabinet Should Use The Automatic Log-Off Feature For Customer Information Control System Applications	N/A	0	Finance began to use screen savers with passwords.
FY 97	97-FAC-5	The Office Of The Controller Should Update Insurance Coverage For Computer Hardware	N/A	0	An updated equipment listing was evident and a sufficient change in insurance coverage was noted.
FY 96	97-Personnel-9	The Personnel Cabinet Should Maintain A Current Inventory Of Computer Equipment	N/A	0	An updated equipment listing was evident and a sufficient change in insurance coverage was noted.
FY 97	97-TC-51	The Transportation Cabinet Should Ensure The Federal Government Receives Its Share Of Proceeds When Real Estate Purchased With Federal Funding Is Sold	20.205	\$19,765	Transportation Cabinet implemented a corrective action plan in FY98. The questioned cost has been repaid in full to the Federal government.

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions (Continued)</u></b>					
<b><i>(2) Audit findings not corrected or partially corrected:</i></b>					
FY 97	97-CFC-31	Sufficient Supporting Documentation Should Be Maintained For Child Care Development Expenditures	93.575	\$49,214	Our audit showed this comment was not resolved for FY 98.  See 98-CFC-34.
FY 97	97-CFC-33	Discovery And Collection Of Overpayments Of TANF Funds Should Be Identified And Pursued Promptly To Maximize Recovery	93.558	\$23,175	Our audit showed this comment was not resolved for FY 98.  See 98-CFC-16.
FY 97	97-CFC-34	The Department For Social Insurance Should Implement Procedures To Ensure Adequate Documentation Exists For Transportation Payments To Participants	93.558	\$1,290	Our audit showed this comment was not resolved for the year ended June 30, 1998.  See 98-CFC-21.
FY 97	97-CFC-35	The Department For Social Insurance Should Implement Procedures To Ensure Adequate Supporting Documentation Is Maintained	93.558	\$777	Our audit showed this comment was not resolved for FY 98.  See 98-CFC-22.
FY 97	97-CFC-36	The Department For Social Insurance Should Implement Procedures To Ensure Adequate Supporting Documentation Is Maintained	93.658	0	Our audit showed this comment was not resolved for FY 98.  See 98-CFC-23.
FY 97	97-CFC-40	The Division Of Disability Determinations Should Implement A Security Policy	N/A	0	Some progress has been made in this area; however, a formal policy had not been implemented for FY 98.

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions (Continued)</u></b>					
<b><i>(2) Audit findings not corrected or partially corrected (Continued):</i></b>					
FY 97	97-CFC-41	The Division Of Disability Determinations Should Improve Logical Access Security Procedures	N/A	0	New access request form drafted; however, there were still exceptions noted during FY 98.
FY 97	97-CFC-42	The Division Of Disability Determinations Should Improve Program Modification Procedures	N/A	0	The agency has made progress toward complying with audit recommendations, but has yet to fully implement corrective action plan. Exceptions were again noted during the FY 98 review.
FY 97	97-CFC-43	The Division Of Disability Determinations Should Ensure All Modifications Are Completed to Allow Processing In The Year 2000	N/A	0	Year 2000 compliance conversions were not complete during FY 98
FY 97	97-CHS-44	The Department For Medicaid Services Should Improve The Controls Over Drug Rebate Billings, Collection, and Recording.	N/A	0	Two of the four recommendations have been implemented. One is partially resolved. The agency has contracted with two businesses to resolve the backlog of drug rebate discrepancies.
FY 97	97-CHS-46	The Department For Medicaid Services Should Ensure That The State Worker's Compensation Data Exchange Occurs Between The Labor Cabinet And The Department For Medicaid Services	N/A	0	No improvement was made pertaining to this comment during FY 98. The agency is implementing these recommendations for FY 99.
FY97	97-CHS-47	The Finance And Administration Cabinet And The Cabinet For Health Services Should Develop Procedures To Ensure Vendors Providing Services To Federal Programs Are Not Debarred Or Suspended By The Federal Government	N/A	0	MARS will have the capability to identify debarred/suspended vendors. The agency will implement this July 1, 1999.

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions (Continued)</u></b>					
<b><i>(2) Audit findings not corrected or partially corrected (Continued):</i></b>					
FY 97	97-CHS-48	The Division Of Substance Abuse Should Adhere To Established Internal Control Procedures	N/A	0	A log is now maintained of all progress reports. However, reminders need to be sent when reports are not received within 30 days. The agency is implementing this in FY 99.
FY 97	97-CHS-49	The Department For Public Health Should Develop A Complete Information System Security Policy	N/A	0	The agency has made progress toward complying with audit recommendations, but has yet to fully implement corrective action plan. Exceptions were again noted during the FY 98 review.
FY 96	97-FAC-2	The Finance And Administration Cabinet Should Adequately Document And Improve Procedures For Preparing The Comprehensive Annual Financial Report	N/A	0	This finding has been partially resolved. The removals had immaterial differences and documentation improved. Inadequate disclosure of pension information continued. FAC will require disclosure information in future financial reports.
FY 97	97-FAC-4	The Finance and Administration Cabinet's Division Of Accounts Should Consistently Follow Procedures To Ensure Accurate Program Modifications	N/A	0	The agency agreed to adhere to established procedures. However, similar exceptions were again noted during the FY 98 review.

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions (Continued)</u></b>					
<b><i>(2) Audit findings not corrected or partially corrected (Continued):</i></b>					
FY 96	97-FAC-6	The Finance And Administration Cabinet Should Provide Adequate Access Security For The Statewide Accounting And Reporting System	N/A	0	FAC began requiring requests to be on file for their agency employees. However, there were still DIS programmers with update access to FAC data and an instance where changes were made to an individual's access without proper authorization.
FY 97	97-Military Affairs-50	The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients	83.544	\$ 62,500	The Department of Military Affairs has implemented an audit tracking system; however, several deficiencies in the tracking system were noted. In addition, audit reports were not being reviewed in a timely manner.  See finding <b>98-MA-31</b> .
FY 94	97-Personnel- 8	Logical Access Control Over The Unified Personnel And Payroll System Should Be Strengthened	N/A	0	The agency again failed to adhere to established procedures. Problems were still noted during FY 98, including disposal of request forms and DIS programmers with update access to files.  See finding <b>98-PERS-6</b> .
FY 96	97-Personnel- 10	The Personnel Cabinet Should Develop A Disaster Contingency Plan	N/A	0	The agency made progress in the development of a Disaster Contingency Plan. However, a Plan was not completed or implemented during FY 98.
FY 97	97-TC-52	The Transportation Cabinet Should Deposit Sale Proceeds Timely	20.205	0	Corrective action plan was not implemented until after June 30, 1998.

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions (Continued)</u></b>					
<b><i>(2) Audit findings not corrected or partially corrected (Continued):</i></b>					
FY 97 FY 98	97-WFDC-53	The Cabinet For Workforce Development Should Ensure The Job Training Partnership Act (JTPA) Complies With Earmarking Requirements.	17.246	\$42,039 60,546	The agency did not resolve this issue. The FY 98 response contended that the salary charges in question were correctly categorized. We disagree with the response, and the issue remains unresolved.
Total Questioned Costs				<u>\$102,585</u>	
FY96	N/A	The Department For Medicaid Services Should Improve Internal Controls Relating To The Alternative Intermediate Care/Mental Retardation Waiver	N/A	120,760	The agency implemented our corrective action plan for FY 97. However, the questioned cost has not been resolved.
<b><i>(3) Corrective action taken is significantly different from corrective action previously reported:</i></b>					
No findings for this section.					
<b><i>(4) Audit finding is no longer valid:</i></b>					
FY 97	97-KHPA-7	The Kentucky Health Purchasing Alliance Should Establish Monitoring Procedures For The Third Party Administrator	N/A	0	House Bill 315 abolished the Kentucky Health Purchasing Alliance (Alliance) and prohibited the Alliance from issuing or renewing any policies after April 10, 1998. Furthermore, the Kentucky Department of Insurance assumed day to day operations of the Alliance effective January 1, 1998.



**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Material Weaknesses</u></b>					
<b><i>(1) Audit Findings that have been fully corrected:</i></b>					
FY 97	97-CHS-56	The Department For Public Health Should Ensure All Modifications Are Completed To Allow Processing In The Year 2000	N/A	0	Year 2000 compliance conversion has been completed for the WIC program.
FY 97	97-C&I-11	The Office Of The Kentucky State Treasurer Should Strengthen Controls Over Monthly Bank Reconciliations	NA	0	Resolved during FY 98.
FY 97	97-PST-22	The Office Of The Petroleum Storage Tank Environmental Assurance Fund Should Collect The Annual Fees And Penalties Required By Law To Be Levied	NA	0	Resolved during FY 98.
<b><i>(2) Audit findings not corrected or partially corrected:</i></b>					
FY 97	97-CHS-54	The Department For Medicaid Services Should Develop Controls To Monitor The Third Party Liability Function Performed By The Fiscal Agent	N/A	0	The agency has implemented 3 of 4 recommendations for FY 98. Our last recommendation will be implemented for FY 99.
FY 97 FY 98	97-CHS-55	The Department For Medicaid Services Should Establish Procedures To Ensure That Pharmacy Provider Information Is Accurate And Current In The Medicaid Management Information System	N/A	184,633 302,180	Controls were not fully implemented for FY 98. Re-enrollment is underway and other procedures are being developed to update and ensure the integrity of the MMIS.
Total Questioned Costs				<u>\$486,813</u>	
FY 97	97-KY KARE-21	Controls Over Receipts Should Be Strengthened At Kentucky Kare	NA	0	No change in procedures was noted, however, the Board of the Kentucky Kare Health Insurance Authority determined they would not be issuing or renewing any policies after December 31, 1998.

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<b><u>Material Weaknesses (Continued)</u></b>					
<b><i>(2) Audit findings not corrected or partially corrected (Continued):</i></b>					
FY 95	97-REV-24	The Revenue Cabinet Should Utilize The Automatic Log-off Feature For Information Management Systems And Customer Information Control System Applications	N/A	0	Some progress has been made in these areas; however, formal procedures had not been implemented for FY 98.
FY 96	97-REV-25	The Revenue Cabinet Computer System Must Be Modified In Order To Process Year 2000 Data	N/A	0	Year 2000 compliance conversions were not complete for FY 98.
1996	97-REV-26	The Revenue Cabinet Needs To Improve Tracking Procedures For Contingent Liabilities	N/A	0	KRC intends to modify the necessary reports to better track contingent liabilities; however, all revisions were not made for FY 98.
FY 93	N/A	The Cabinet For Workforce Development Had Questioned Costs Of \$372,383 For Fiscal Year Ended June 30, 1993.	Multiple Programs	\$372,383	The Department of Employment Services resolved \$73,749 during the FY 97 audit, and an additional \$39,254 during the FY 98 audit. The agency agreed to resolve the remaining costs during FY 2000.
FY 97				298,634	
FY 98				259,380	
<b><i>(3) Corrective action taken is significantly different from corrective action previously reported:</i></b>					
No findings for this section.					
<b><i>(4) Audit finding is no longer valid:</i></b>					
FY 97	97-KHPA-12	The Kentucky Health Purchasing Alliance (KHPA) Should Prepare Financial Statements	N/A	0	House Bill 315 abolished the Kentucky Health Purchasing Alliance (Alliance) and prohibited the Alliance from issuing or renewing any policies after April 10, 1998. Furthermore, the Kentucky Department of Insurance assumed day to day operations of the Alliance effective January 1, 1998.

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Material Weaknesses (Continued)</u></b>					
<b><i>(4) Audit finding is no longer valid (Continued):</i></b>					
FY 97	97-KHPA-13	The Kentucky Health Purchasing Alliance Should Adequately Document New Member Enrollment And Coverage Changes	N/A	0	See comment at 97-KHPA-12.
FY 97	97-KHPA-14	The Kentucky Health Purchasing Alliance Should Adequately Document Notifications Of Terminations In Coverage	N/A	0	See comment at 97-KHPA-12.
FY 97	97-KHPA-15	The Kentucky Health Purchasing Alliance Should Ensure Correct Billing Of Enrollees And Employers	N/A	0	See comment at 97-KHPA-12.
FY 97	97-KHPA-16	The Kentucky Health Purchasing Alliance Should Ensure Correct Calculation Of Premiums Due To Accountable Health Plans	N/A	0	See comment at 97-KHPA-12.
FY 97	97-KHPA-17	The Kentucky Health Purchasing Alliance Should Complete Covered Group Reconciliations Timely	N/A	0	See comment at 97-KHPA-12.
FY 97	97-KHPA-18	The Kentucky Health Purchasing Alliance Should Complete Insurance Carrier Reconciliations Timely	N/A	0	See comment at 97-KHPA-12.
FY 97	97-KHPA-19	The Kentucky Health Purchasing Alliance Should Develop Procedures To Accurately Reconcile Bank Accounts	N/A	0	See comment at 97-KHPA-12.
FY 97	97-KHPA-20	The Kentucky Health Purchasing Alliance Should Maintain A General Ledger	N/A	0	See comment at 97-KHPA-12.

**COMMONWEALTH OF KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
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**Material Weaknesses (Continued)**

*(4) Audit finding is no longer valid (Continued):*

1995	97-REV-23	The Revenue Cabinet Should Improve Receipt Procedures (Date Stamp)	N/A	0	Two years have passed; KRC management is adhering to the provisions of KRS 41.070 by depositing funds in the most prompt and cost- efficient manner possible given current staffing.
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## **APPENDIX**

**COMMONWEALTH OF KENTUCKY  
APPENDIX  
FOR THE YEAR ENDED JUNE 30, 1998**

List Of Agencies Audited As Part Of The Single Statewide Audit Of the Commonwealth

The following is a list of the agencies audited as part of the Single Statewide Audit of the Commonwealth of Kentucky (SSWAK) for the year ended June 30, 1998. This list includes agencies receiving only financial statement audits used for preparing the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR). CPA reports are available upon request to the respective audited agency.

**AGENCIES AUDITED BY CERTIFIED PUBLIC ACCOUNTING FIRMS AND INCLUDED IN THE SSWAK:**

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Bluegrass State Skills Corporation  
Kentucky Center for the Arts Corporation  
Kentucky Economic Development Finance Authority  
Commonwealth Small Business Development Corporation  
Department of Information Systems  
Kentucky Educational Savings Plan Trust  
Kentucky Authority for Educational Television and Kentucky Educational Television Foundation  
Finance and Administration Cabinet – Department of Information Systems  
Kentucky Higher Education Assistance Authority  
Kentucky Higher Education Student Loan Corporation  
Kentucky Horse Park  
Kentucky Housing Corporation  
Kentucky Infrastructure Authority  
Judicial Form Retirement System  
Kentucky Local Correctional Facilities Construction Authority  
Kentucky Lottery Corporation  
Kentucky Retirement Systems  
Kentucky State Fair Board  
Teachers' Retirement Systems  
Transportation Cabinet  
Turnpike Authority of Kentucky  
Kentucky Worker's Compensation Funding Commission  
Kentucky Worker's Compensation Special Fund, Coal Workers' Pneumoconiosis Fund (functions of the Labor Cabinet), and Uninsured Employers' Fund (function of the Office of the Attorney General)

**COMMONWEALTH OF KENTUCKY  
APPENDIX  
FOR THE YEAR ENDED JUNE 30, 1998  
(CONTINUED)**

List Of Agencies Audited As Part Of The Single Statewide Audit Of the Commonwealth  
(Continued)

**AGENCIES AUDITED BY CERTIFIED PUBLIC ACCOUNTING FIRMS AND  
NOT INCLUDED IN THE SSWAK EXCEPT FOR EXPENDITURE AMOUNTS  
(AS REQUIRED BY OMB CIRCULAR A-133):**

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Eastern Kentucky University  
Kentucky Community Technical College System  
Kentucky State University  
Morehead State University  
Murray State University  
Northern Kentucky University  
University of Kentucky  
University of Louisville  
Western Kentucky University

**AGENCIES AUDITED BY THE AUDITOR OF PUBLIC ACCOUNTS OFFICE:**

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Administrative Office of the Courts  
Cabinet for Families and Children  
Cabinet for Health Services  
Department of Corrections  
Department of Education  
Finance and Administration Cabinet  
Governor's Office for Policy and Management  
Department of Military Affairs  
Natural Resources and Environmental Protection Cabinet  
Personnel Cabinet - Kentucky Kare Plan  
Personnel Cabinet - Risk Management Funds  
Revenue Cabinet  
Department of State Police  
Transportation Cabinet  
Department of the Treasury - Cash and Investment Functions  
Cabinet for Workforce Development

**OTHER AUDITS RELIED ON BY APA AUDITORS:**

Custom Data Processing, Inc.